INTRODUCTION TO “CRAFTING A GOOD STRATEGY - PART II

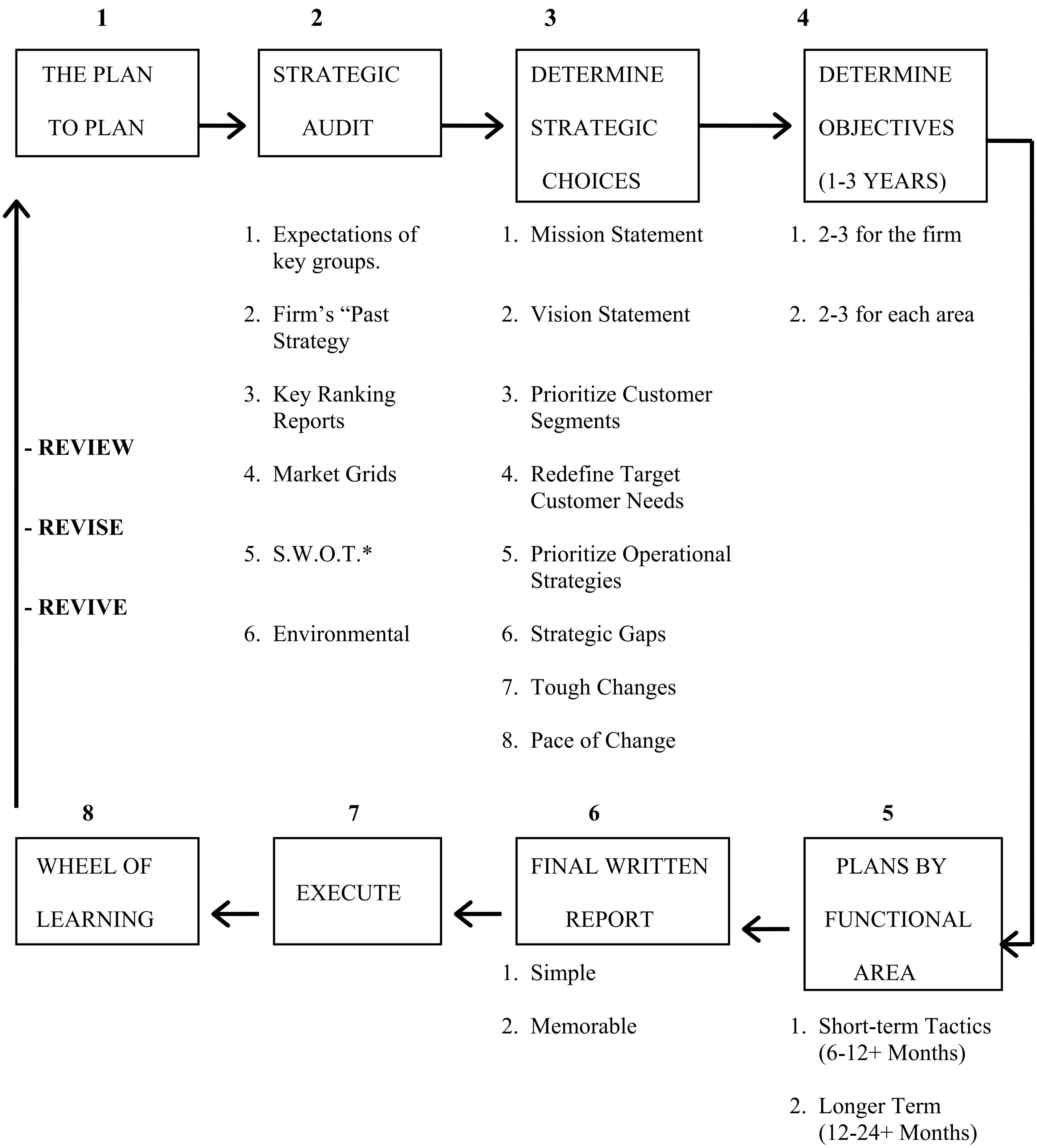
The five exhibits that follow that are largely self-explanatory, especially if you have already read through the following documents that are also posted at www.merrifield.com:

1. A slide show titled: Crafting A Corporate Strategy. http://min.isisit.com/merrifield/articles/Crafting_Corporate_Strategy.pdf
2. Chapters 1-3 of our forthcoming book links for which are under the red star on our home page.

We apologize for the lack of additional commentary that could go with these exhibits, but we still think that they offer a lot of value for those companies who are looking for strategic advice. If you should have questions about any of the content in any of the three offerings listed above, please feel free to email them to bruce@merrifield.com.

Exhibit 1

A STRATEGIC PROCESS (OR ROAD MAP)

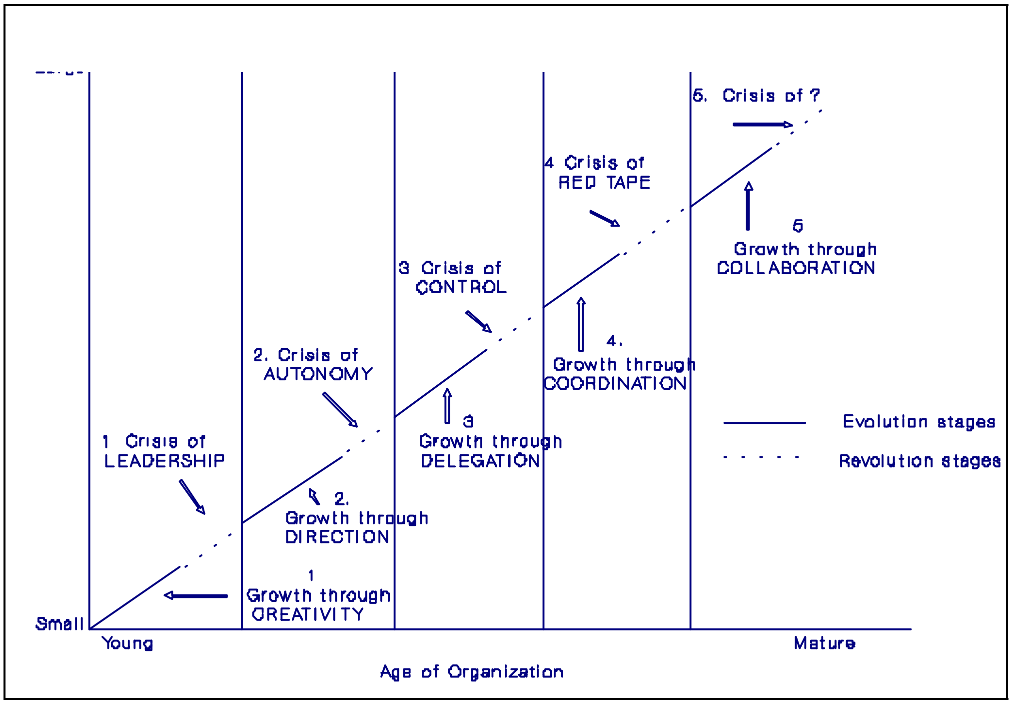


*S.W.O.T. = Strengths, Weaknesses, Opportunities, Threats. Strengths and weaknesses are internal, company-specific issues, whereas opportunities and threats have to deal with emotional, environmental issues.

Exhibit 2

ORGANIZATIONAL DEVELOPMENT STRATEGY

The Five Phases of Growth



From: Strategic Planning in Emerging Companies by Steven C. Brandt; Addison-Wesley; 1981; p.103.

PHASE I: CREATIVITY; MANAGEMENT BY HOPE (MBH)

1. Don't worry about details.
2. Owners work long hours reacting directly to customers to create a business.
3. Communication is frequent and informal.
4. Mature industry entrant assumption - "There's room for one more".

Pitfalls

(2 partners are 4x more often successful than 1 entrepreneur due to specialization of labor - "inside/outside" and mutual reality checks.)

1. Overextended owner.
2. Work hard, not smart.
3. Run out of cash, because "business was too good; grew too fast".

PHASE II: "DIRECTION"; MANAGEMENT BY CRISIS (MBC)

1. Partial functional delegation begins.
2. Hub-of-the-wheel structure.
3. Basic accounting and control systems in.

Pitfalls

1. No good people to delegate to; owner not a good delegator.
2. Systems are not good enough to let employees have autonomy they would like.
3. Most small businesses plateau at this stage.

PHASE III: **DELEGATION, DECENTRALIZATION**

1. Profit centers and departmental standards, bonuses set-up.
2. Management by exception.
3. Management focuses on growth opportunities.
4. Communication becomes too infrequent and formal.

Pitfalls

1. Profit centers and departments start to fight.
2. Some areas get too far out of operational line.
3. Management regresses to hub-of-the-wheel.
4. Immature systems drain motivation.

PHASE IV: **COORDINATION: THE POWER OF SYSTEMS IS PURSUED**

1. All systems are refined.
2. Many new systems invented.
3. Usually capital and manpower becomes much more efficient.

Pitfalls

1. Red-tape crisis.
2. Systems are unfriendly to customers.
3. Systems are inflexible to employees.

PHASE V: **COLLABORATION; HIGH PERFORMANCE ENVIRONMENT**

1. The environment is rethought to achieve excellence inside and out.
2. People and cash flow start to grow.
3. Fast growth management guidelines keep new organic growth occurring.

Pitfalls

1. Burn-out by plateau workers.
2. Not re-deploying excess people talent and cash as growth matures.
3. Company becomes top-heavy, older and doesn't renew itself.
4. Environment changes and obsoletes entire organism to a significant degree. Who wants to re-invent a business?

*See "Process Engineering (x) Services" at www.merrifield.com under "Exhibits".

**See Chapters 1 to 3 from "Reinventing Distributor Profitability" at www.merrifield.com on the homepage under the red star.

Exhibit 3

COMPETITIVE STRATEGY GUIDELINES

1. Write a competitive strategy statement that defines how your firm seeks to <u>profitably</u> secure. It should include the following elements:

   a) A target scope of customers who share unique compelling (will pay for) needs(s).

   b) Include what the logical scope of products/services are that this target customer niche needs to buy.

   c) How will these needs be filled by you in a sustainably unique, measured and valued way? Call this your "unique marketing proposition" (UMP).

   d) How will your UMP create switching costs for the customers and/or barriers to entry for would be competitors?

   e) Make the statement as simple, memorable and operable as possible. Will it allow for spontaneous "bi-focal decision making" when confronted with daily problems/opportunities? (Bi-focal means smart in the near and long-term.)

   f) A "mission statement" expands upon a strategy statement usually including the values that will govern how a firm achieves its strategy.

   g) A "vision statement" might be used if a transformational change of the company is expected in the future.

2. Educate ALL employees about: "the competitive triangle" of their business; the company's strategic statement; and how everyone's prosperity (except for the competition) depends upon key measurements for customer value and cost effectiveness.

3. Prune all activities and customers that fall outside of your strategic scope. These drain resources and quality from the strategic core.

4. List and address the critical issues that keep you from fully supporting your competitive strategy.

5. Put profit and excellence first, volume will follow through best-customer retention.

6. Avoid conflicts caused by nesting department and product strategies within profit center strategies which are all within corporate-wide strategies.

EVOLVE, EXPAND, DIVERSITY

7. Service companies craft their strategies through the medium of people and relationships that both evolve in response to core customers - not the mediums of capital; equipment; brand advertising; technology; or natural resources.

8. Distinctive execution of a basic strategy will generate self-made, but unforeseen opportunities. Only high performing competitors will have the credibility, optimism and spare resources to seize emergent and often tangential options.

Exhibit 4

STRATEGY IS NOT

1. "Pro forma" number crunching with bottom-up, compounded optimism.
   a. There is no reason to expect a change in competitive equilibrium in the absence of a plan to cause it to happen.
   b. Incremental improvements in cost can be expected, but the competition will match such progress.
   c. Sales and profit improvements will occur in an up market, but do so for all competitors.

2. Vague and varying statements or slogans from the CEO.

3. A list of success criteria which may screen out poor options, but does not create new, good ones.

4. Usually well produced by managers with lengthy, operational experience as their only credential; they tend to lack foresight, judgment, and mental flexibility.

5. The result of good luck. All operational tactics and expansion moves masqueraded as "successful strategy" from 1946-1974. And for inflation-proofed businesses (wholesale and retail) from 1974-81.

6. Having faster reaction speed with a can-do attitude and being re-active to all pressures.
   a. This takes hard work to only preserve the status quo and evolutionary drift of natural competition.
   b. This does not clean-up the non core-business waste in a business which keeps growing and sapping core profits.

REASONS STRATEGIES FAIL

1. Too abstract and complex.

2. Must be memorable and easily communicated.

3. Low initial understanding, commitment and consensus.

4. Financial under-investment or lack of persistence.

5. Too ambitious with...
   a. The ingredients - kitchen sink approach.
   b. The numbers - don't bet the company and try to his home-runs; hit singles steadily.

6. No priorities in the planning, programs and execution steps.

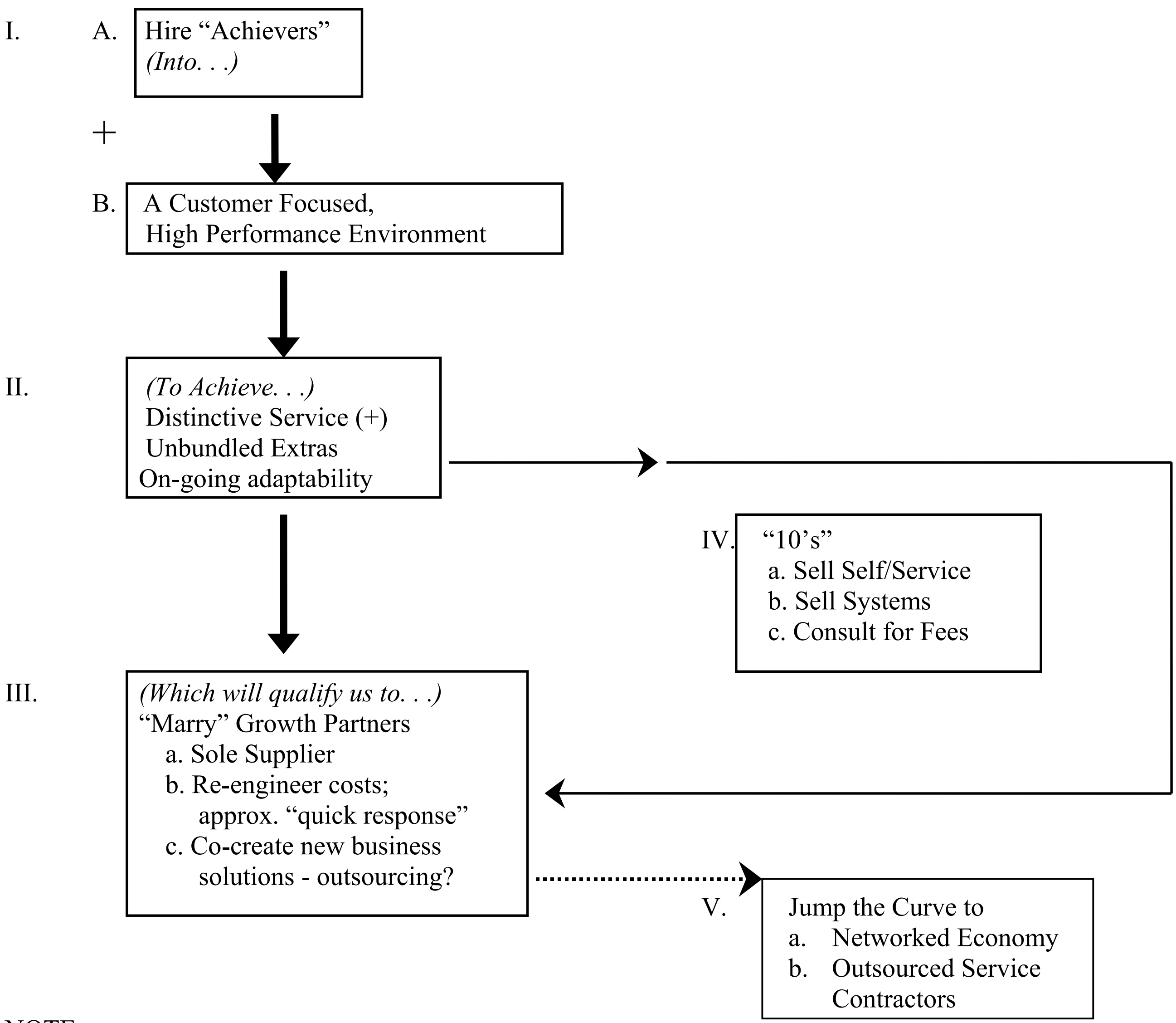
7. Poor hands-on coaching at the branch to break old habits and form new and necessary habits (peopleware).

8. Insufficient courage for dealing with difficult changes or new skills needed to support the driving force.

9. Poor strategy selection.
   a. Me-too, but too late.
   b. No mice to catch with a better mousetrap.

Exhibit 5

STRATEGIC STEPS TO SUCCESS



NOTE:

This model is reviewed in more detail in Module # 5.9 of the MCG video product "High Performance Distribution for All."

As you look through all of the related questions on the following three pages, please note that a number of them are addressed in the video's modules. The related module is shown at the end of each question. For more information on the video (plus resellers that offer big discounts) hit the hotlinks in the center of www.merrifield.com's homepage.

I - V; QUESTIONS TO CONSIDER

(I) Hire "achievers" into customer-focused, high-performance environment

1. What must you *pay* to get the best, to expect the most and retain employees longer to better serve and retain customers? Modules: 2.3, 4.7)

2. How do you increase the odds that you *pick the best* potential applicant from a pool of prospects? (Module3.13)

3. What type of *personnel systems* are appropriate for - orientation; pay-for-knowledge; internal bench-marking & personal goal planning? (Modules 3.13, 3.14, 4.7, 5.3, 5.4, 5.5)

4. What kind of *feedback systems* are necessary to help employees *spontaneously, self-organize* to give everyday perfect service in the most cost effective way in a *sustainable motivated way?* (Module 5.3 – 5.5)

5. If the bottom 80% of the payroll must provide distinctive service, how do we:

    a) Define a "black-belt 10th degree (warehouse) performance? (Module 4.7, 5.3-5.5)
    b) Design a "path to mastery"? (Module 5.4)
    c) Teach the how's and why's of mastery to some who may have never experienced a personal best before? (Module 5.4)

6. How do we convert boss/subordinate tendencies into a team of responsible, accountable partners? (Module 3.15, 5.6)

7. Must we do all of this? Why wouldn't we want to try?

(II) Achieving "Distinctive Service" (+) unbundled extra services for a fee:

1. For experienced, repeat buyers of commodities(80% (+) of a mature industry's sales):

    a) What are the four most important, universal measurables that buyers want aside from price and terms? (Module 4.1)

    b) How do we identify and dominate (60% - 90% market share) one customer niche at a time? (Niches can be defined by their 1 or 2 compelling, but peculiar service needs aside from the four universals.) (Module 3.2 – 3.4)

    c) What is more compelling to the customer: "We are ISO 9000 certified", or, "We have the highest fill-rates on your one-stop shop product needs with an unconditional guarantee on zero errors and on-time delivery - or we pay! (Section 4)

    d) Can we expect margin levels on commodities to pay for traditional salesreps and extra services too? Or, must those offerings be unbundled and sold for a fee? (Module 4.9-4.10)

(III) “Marry” Growth Partners:

1. If we are selling mature, slow-growth commodities, then isn’t faster growth dependent upon becoming the dominate supplier to the 10% of the customers who are both: a) growing faster than their industry; and b) consistently able to pay their bills (AKA “gazelles”)? (Module 3.4 – 3.7)

2. Why should they marry us? Are we partner-able? (Section 4, especially 4.11 & 4.13)

3. If we sell the 50% + of all customers who are “extinction in motion”, what are the 3 - 5 year implications?

4. How do we successfully sell, install and measure purchasing systems that will reduce all “eleven elements of total procurement cost” so that we can maintain a sustainably successful, win-win marriage? (Module 4.11, 4.13)

5. How do we avoid being squeezed into a they win - we lose situation over time? (Module 4.13)

6. How do we re-engineer the buy-sell process between us and the customer to reduce our costs by half; share 50 - 80% of our savings with them; and put more to our bottom line? Or, should we wait for the competition to do it first? (Module 4.13)

7. Outsourcing non-core activities to world-class partners is a strong trend. Can we:
   a) Find new needs (outsourcing opportunities) and fill them? (Module 4.9)
   b) Do so at a cost that is less than what the customer will pay?
   c) Do it for 2 or more existing customers to get economies of scale & expertise from repetition?

(IV) Re-Inventing Outside Salespeople:

1. “Big buyers” (per a NAPM survey) claim that 90% of salesreps aren’t worth seeing. Who are the worthwhile 10%? What is a “10”? (Module 5.4, 5.5)

2. Penetrating old or new accounts significantly and profitably is much more difficult than maintaining existing business. How should we pay accordingly? If we don’t, what will happen? (Module 3.11)

3. Full-service salespeople (“10’s”) should be able to:

   a) Get last look and a personal premium for their value-added efforts which exceed the efforts of mediocre competitors. How? (Module 4.12)

   b) Get their full-cost plus some when competing with discount channel pricing. How? (Module 4.12)

4. How do we go from an era and mindset of paying salespeople a percent of the product they sell to the customer to paying them a percent of how much the salesperson adds to the customer's bottom line?

(V) Jumping the Curve to the networked economy and outsourced service contracts:

1. Because "infotech" is accelerating the pace of change, we will get hit by unforeseen surprises. Do we have the organizational resilience to take a blow and turn every negative into a positive? (The on-time video)

2. A glut supply of equally excellent clone products and distribution channels are eroding margins and profits on commodity tangibles. What are we doing to:

    a) See and get to the future first? (3 - 5 Years out) Will we be the first to successfully apply new web technologies into new business models to secure a profitable place in the emerging networked economy?

    b) Create the new businesses and profit streams of tomorrow by:

    -- Identifying best customers' new compelling needs; and,

    -- Filling them at a cost that is less than what they value and will pay for our solution?