

# How does a business owner decide on their next move during a time of turmoil?

It makes sense that having no plan, or a bad plan, will undermine the success of your business. It might even result in the failure of your business.

To succeed in business, what's needed is a good plan, a good strategy.

For good strategy to exist you must have clarity over the key challenge you are facing as a business. Getting clear on the challenge you face will inform your decisions and actions. Like they did for Nelson at the Battle of Trafalgar, like they did for Steve Jobs when he took over Apple when it was in dire need in 1997, like the grocery store owner does in the case study example in section 5 below:

How would you describe the key challenge facing your business over the coming months?

To help you answer this question, here are a few insights, tools and exercises to help you avoid bad strategy and implement good strategy for your business.

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**STOP** thinking that good strategy is all about goals, ambition and vision

**START** seeking clarity about your business' key strategic challenge

### 1. The one 'BREAKTHROUGH QUESTION' you must ask to help yourself...

When the grocery store owner (in section 5) worked through the issues facing her business and fixed her sights on a clear challenge, she was a long way towards resolving her business' next steps.

When devising a plan or strategy for your business, you **MUST** get clear on the key challenge you face, if you fail to do this then you run a greater risk for your business.

Your answer to the question below informs the important decisions and actions for your business. Your answer to this question tells you whether you and your team are clear on the challenge or whether you need to do more work on clarifying the challenge ahead:

How would you describe the key challenge facing your business over the coming months?

Where is the value in this question?

'Strategy' is easy to dismiss.

'Strategy' is an overused word and is often dismissed as theoretical business school mumbo jumbo! Not surprising when you can be asked "*What's your STRATEGY for matching your curtains, to your carpet and your sofa!*" or *What's your strategy for staying so trim?*".

***Good Strategy is hard work because of the time and effort it takes to identify your key challenges and then work out your actions to overcome them.***

And thank goodness it's hard work - because good strategy is easy to dismiss and requires hard work, most businesses fail to get to grips with it. If and when you do take good strategy seriously and take the time and effort to get clear on your key business challenge, then you are likely to find yourself with an advantage over your competitors.

Ask yourself this breakthrough question and invest time and energy working out your answer. It could be an internal challenge inside your business. It could be an external challenge because of the economy or competitor attack. Work your challenge out and then work out your guiding policies and actions to overcome your challenge.

### 2. Nelson's columns – there were 2!

To take on a superior fleet of 33 Franco-Spanish ships, with his weaker 27 ships of the British fleet, Nelson created a new strategy that caught the Spanish and French off guard.

Nelson's strategy...

Nelson worked out the critical challenge in his situation.

He was outgunned.

The British fleet had 2,148 guns; the French and Spanish 2,632\*.

He was also outmanned.

Should the battle come down to ship-to-ship combat, the British were seriously outnumbered too.

The British fleet fielded approximately 17,000 sailors and marines. The French and Spanish 30,000. This is why Trafalgar rightly stands as one of the greatest naval clashes in history.

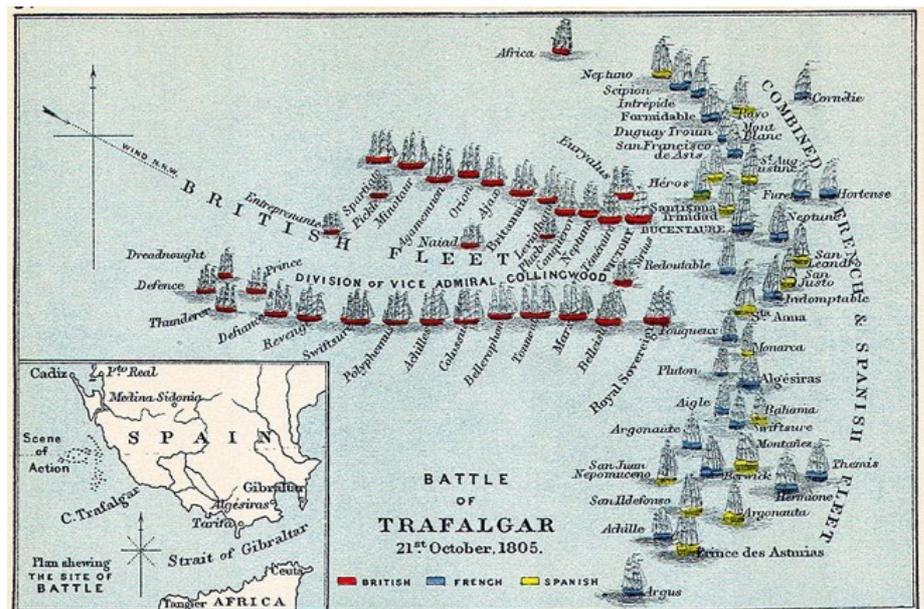
Nelson knew his challenge was to avoid the classic sea battle approach of the times, he simply didn't have enough ships.

Instead of the two opposing fleets staying in line, firing broadsides at each other (the usual strategy of the day), Nelson broke the British fleet into two (even weaker) columns and drove them at the Franco-Spanish fleet, hitting their line at 90 degrees.

The lead British ships took a great risk, but Nelson judged that the lesser-trained Franco-Spanish gunners wouldn't be able to manage their guns in the heavy sea swell that day.

On Nelson's fatal day at the Battle of Trafalgar 22 ships were lost. All 22 were French or Spanish.

Nelson lost none, and his legend as Britain's greatest naval commander was secured.



*Good strategy transforms vague overall goals into a coherent set of actionable objectives that deal with a key challenge.* – Richard Rumelt, Good Strategy, Bad Strategy

It pays to invest time and energy getting clear on the challenge you face. Then have this challenge inform your thinking about your guiding policies, decisions and actions that follow.

If you're unclear on the challenge then all your policies, decisions and actions could be wasted.

### 3. Porter's 5 forces – identify your key challenge

Warren Buffett, one of the most successful business investors of all time, has said that he evaluates a company by looking for “*sustainable competitive advantage*”.

The term “*competitive advantage*” became a term associated with business success partly thanks to Michael Porter's 1984 insightful book of that title. The tool Porter proposed to help us find our competitive advantage was his 5-forces model.

**ACTION:** You can look at each of the 5-forces and see where you are strong or weak. This can then help direct your thinking on the strategic challenge you face.

To dive into the detail of Porter's 5-forces simply turn to Google for help. One source we think brings a good insight in a simple format can be found here - <https://www.smartinsights.com/online-brand-strategy/brand-development/how-to-use-porters-5-forces-model/>

From this SmartInsights webpage here are some examples of where the challenges lie in different markets – they will help you see which elements fit with your business:

#### Competitive rivalry

These include estate agents, web design, and office stationery. Many competitors often buy on price. There are many providers of very similar products, meaning that differences should be highlighted, and prices must be competitive.

#### Threat of substitute products

The substitute for all services is DIY. For example, anyone can cut their own hair or write their own will, but many people spend money to enlist the services of an experienced professional to deliver a level of service greater than they can provide themselves. Focus on expertise, customer service and the added value your company can use to distinguish itself.

#### Bargaining power of buyers

An example is the grocery sector, since supermarkets tend to retain power over suppliers due to volume and price of contracts. They dictate terms, set prices and can end agreements at any time.

#### Threat of new entrants

An example is web design, as there are independents in every location. This is an easy market to enter with few requirements, other than skills, initiative and relevant hardware and software. This does mean there are many new entrants!

#### Bargaining power of suppliers

Some sectors have monopolistic (one) or oligopolistic (few) suppliers, such as utility companies. Sometimes customers have little choice, for example where to buy domestic water suppliers, though this is changing. In the jewellery sector, diamond suppliers often hold the power and can set prices, withhold supply and restrict sales.

Read more here - <https://www.smartinsights.com/online-brand-strategy/brand-development/how-to-use-porters-5-forces-model/> - or dig deeper in Google

### 4. Good Strategy Case Study Example – a grocery store...

Here's how getting clear on three aspects of good strategy pays off for a grocery store owner:

- The challenge
- The guiding policies
- The actions

*Adapted from: Richard Rumelt – Good Strategy/Bad Strategy*

#### SETTING THE SCENE:

Stephanie owns a corner grocery store.

She does the accounts, manages the store's personnel, sometimes runs the cash register, and makes all the decisions.

Here's some of the issues she is facing (all of which some people would describe as 'strategies')

- She is considering whether she should keep prices down or offer more expensive, fresh organic produce.
- Should she begin to stock more Asian staples for the many Asian students who live in the area?
- Should the store be open longer hours?
- How important is it to have a helpful, friendly staff that gets to know the regulars?
- Would adding a second checkout pay off?
- What about parking in the side street?
- Should she advertise in the local university newspaper?
- Should she paint the ceiling green or white?
- Should she put some items on sale each week? Which ones?

An economist would tell her that she should take actions to maximise profit, a technically correct but useless piece of advice. Running a business is not as simple as working out costs, revenues and the price elasticity of demand (as if you could anyway, even if we knew what this meant!).

In the real world, however, "maximise profit" is not a helpful prescription, because the challenge of making, or maximising, profit is an ill-structured problem with too many variables.

Even in a corner grocery store, there are hundreds or possibly thousands of possible adjustments one can make, and millions in larger businesses – the complexity of the situation can be overwhelming.



## Good Strategy

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Rather than coming at each of these issues in a loose un-coordinated fashion with no direction, Stephanie needed to form a **GOOD STRATEGY** for the survival of her small grocery business

### **1<sup>st</sup> DIAGNOSE THE CHALLENGE:**

Thinking about her store, Stephanie diagnosed her challenge to be competition with the local supermarket.

She needed to draw customers away from a store that was open 24/7 and had lower prices.

Seeking a way forward, she believed that most of her customers were people who walked by the store almost every day. They worked or lived nearby. Scanning her list of questions and alternatives, she determined that there was a choice between serving the more price-conscious students or the more time-sensitive professionals.

Transcending thousands of individual choices and instead framing the problem in terms of choosing among a few customer groups provided a dramatic reduction in complexity.

Of course, if both of these customer segments could be served with the same policies and actions, then the dichotomy would have been useless and should be cast aside. In Stephanie's case, the difference seemed significant.

### **2<sup>nd</sup> GUIDING POLICY CHOICES:**

More of her customers were students, but the professionals who stopped in made much larger purchases.

Pushing further along, Stephanie began to explore the guiding policy of "serve the busy professional."

After some more tinkering, Stephanie sharpened the guiding policy a bit more, she got more specific. She decided to target "the busy professional who has little time to cook".

There was no way to establish that this particular guiding policy was the only good one, or the best one. But without a good guiding policy, there is no principle of action to follow.

Without a guiding policy, Stephanie's actions and resource allocations would probably be inconsistent and incoherent, fighting with one another and cancelling one another out.

Importantly, adopting this guiding policy helped reveal and organise the interactions and choices among the many possible actions.

### **3<sup>rd</sup> COHERENT ACTIONS:**

Considering the needs of the busy professional with little time to cook, she could see that the second checkout stand would help handle the burst of traffic at 5 p.m. So would more parking in the street.

In addition, she felt she could take space currently used for selling munchies to students and offer prepared, high-quality take-home foods instead. Professionals, unlike students, would not come shopping at midnight, so there was no need for very late hours. The busy professionals would appreciate adequate staffing after work and, perhaps, at lunchtime.



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In summary, Stephanie applied GOOD STRATEGY in this situation:

- She diagnosed the CLEAR CHALLENGE (competition for the local 24/7 supermarket with lower prices)
- She chose a GUIDING POICY – focusing her attention on higher spending busy professionals rather than the more numerous students who spend less
- that helped create ACTIONS that were coordinated and concentrated, focusing her efforts

### 5. Proximate objectives make a world of difference...

One of a leader's most powerful tools is the creation of a **proximate objective** - objectives that are close enough at hand to be feasible, believable, achievable.

Richard Rumelt makes a big play for setting good proximate objectives – Rumelt's experiences suggest that:

*“A good proximate objective's feasibility does wonders for organisational energy and focus.”*

A proximate objective is a target that an organisation can reasonably be expected to hit, or even hit out the park.

To successful businesses like Google, Intel and many others their version of proximate objectives are called OKRs – **Objectives and Key Results** they set every quarter (13 weeks). See the Bitesize Business Breakthrough on OKRs for more on this valuable insight.

Many business leaders fail badly at getting clear on the challenge facing their business, they also fail to provide believable proximate goals.

Announcing ambitious goals without resolving a good chunk of ambiguity about the specific challenges to be overcome is a failure of leadership.

Rumelt advocates that **taking responsibility for setting proximate objectives, in light of the business' key challenge, means handing the organisation a problem it can actually solve.**

#### a) **President Kennedy's speech makes space travel a reality:**

Rumelt (who worked at NASA during this time) points to the space race in the 1960's and Kennedy's landmark speech that turned landing a man on the moon into a proximate objective:

*“For example, President Kennedy's call for the United States to place a man on the moon by the end of the 1960s is often held out as a bold push into the unknown. Along with Martin Luther King Jr.'s “I Have a Dream” speech, it has become almost a required reference in any of today's “how to be a charismatic leader” manuals extolling the magical virtues of vision and audacious goals. Actually, however, landing on the moon was a carefully chosen proximate strategic objective. Kennedy's 1961 speech on this issue remains a model of clarity. Look it up on the Web and read it.”*

*“Kennedy did much more than simply point at the objectives; he laid out the steps along the way—unmanned exploration, larger booster rockets, parallel development of liquid and solid fuel rockets, and the construction of a landing vehicle.”*

In listing the ways to achieve the moon-landing objective he ignited the nation's imagination and made the objective feasible and believable – he made it a proximate objective.

### b) **Lombardy Machine Company – Milan**

When you have worked out the key challenge facing your business it's then time to work out your proximate objectives. Objectives that you and your people can believe in and work on together.

Marco Tinelli knew his family business (Lombardy machine company, operating on the outskirts of Milan) was in serious difficulties. Rumelt shares Tinnelli's comments when he met him in 1997:

*“When my uncle passed away, the responsibility for the company passed to me. Things were not good. The quality of the machines had declined, especially compared with our best competitors. Costs were too high and the sales personnel were not technically sophisticated. To sell a sophisticated machine with microprocessor controls takes a sophisticated salesperson. If we didn't change, we would slowly go out of business. But it seemed as if everything had to change. Where to start?”*

So Tinelli had worked out his key challenges - the quality of their machines compared to the competition, training of the sales staff and high costs.

Any payoff from better-quality machines was diluted because the sales force could not accurately represent their qualities and performance. A better sales force, by itself, would have added little value without better machines. And improvements in quality and sales would not save the firm unless costs were reduced.

What guiding policies would he choose to give focus on the actions needed to save his family business?

Tinelli established a series of proximate objectives.

*“I conducted three campaigns, one after another.*

*In the first campaign we spent twelve months just on quality. I told the employees that everything we did for the next year would be to make our machines the best in the industry, the most reliable and the fastest.*

*Once we had good quality machines, I focused entirely on the sales function. The salespeople had been involved in the quality campaign, and now the engineers and manufacturing people worked with sales to build skills, selling tools, and communications links back to the factory.*

*Market results were slow in coming, but I knew we had to make these investments first to reap benefits later.*

*Finally, we spent nine months working just on cost.*

*There was no other goal during this third campaign. I left cost cutting to the last because I wanted the cost-reduction campaign to work with, but not define, the type of machines we build.*

*To reduce costs, we reviewed each component and each step in the manufacturing process. The big improvements came from cutting two products out of the line and bringing in-house some tools and dies we had*



## **Good Strategy**

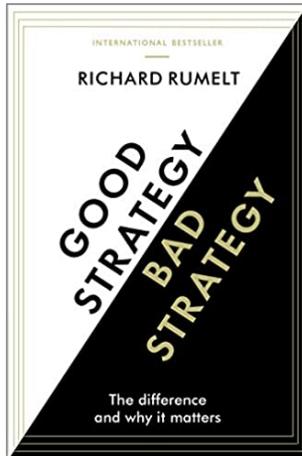
Support tools and resources

*been buying from other companies. By making our own dies we increased the speed of the machines, and thus increased their value to our customers.*

*The price of the machine did not fall, but the cost to the user did. It took a sophisticated sales-engineering team to get this point across to our customers, which was another reason for making this type of cost reduction the last step. Marco's efforts paid off, and the family company is a growing profitable firm with an excellent reputation in its industry.*

### 6. The book and other resources

Now is a good time to start taking strategy seriously in your business, it will give you the competitive edge you are looking for. To dive deeper start by reading this brilliant and insightful book, 'Good Strategy/Bad Strategy- The Difference and Why It Matters' by Richard Rumelt.



For Rumelt, the heart of good strategy is the insight into the hidden power in any situation, and into an appropriate response - whether launching a new product, fighting a war or putting a man on the moon.

Drawing on examples of the good and the bad strategy from across all sectors and all ages, he shows how this insight can be cultivated with a wide variety of tools that lead to better thinking and better strategy, strategy that cuts through the hype and gets results.

*“Rumelt blends a practical focus with powerful conceptual ideas to provide an insightful guide for those wrestling with the challenge of creating strategy that makes a real difference”. Mark Jenkins, Professor of Business Strategy, Cranfield Business School*

Here is a link to buy the book: <https://amzn.to/3gad3vh>

If you want to know more about Good and Bad Strategy and the importance to your business, then watch these videos – which one appeals to you most – from 3 minutes to 18 minutes long?

1. Sky News business reporter Carson Scott speaks with Richard Rumelt, about Good Strategy/Bad Strategy -- The Difference and Why It Matters – 14 minutes

Watch the video here: [https://www.youtube.com/watch?v=tL\\_sQddBtU4](https://www.youtube.com/watch?v=tL_sQddBtU4)



Good Strategy/Bad Strategy - who succeeds in business?

## Good Strategy

Support tools and resources

2. And here is another great 3-minute video – Listen to Richard Rumelt define the 5 elements of good strategies, drawing on the successes of General Motors in the 1920s, NASA's Apollo program, Cisco, IKEA, and Nvidia – 3 minutes

Watch the video here: <https://www.youtube.com/watch?v=Hps7Ybr2OuA>



3. **Strategy in volatile times** seems like a healthy subject for our times and in this 18 minute video you'll see/hear Richard Rumelt describe other volatile times and how strategy helps you and your business responds



<https://www.youtube.com/watch?v=3vG3S6fG0gA>