

The Strategic Planning Workbook

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THIRD EDITION



The Strategic Planning Workbook

Neville Lake



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Video material to support this book is available at the Kogan Page website:
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PREFACE

Strategy. It's a great word, isn't it? Just put the word 'strategic' in front of a project and it shines a little brighter than all others. Look at the funding for activities – those that are labelled 'strategic' get the largest slice. The CEO's projects are almost always 'strategic projects', and these – and all the others that go by the same name – get first priority. But what is a strategic project? Indeed, what is strategy?

This is a surprisingly difficult question to answer, because 'strategy' is a term that means different things to different people, and too often it becomes a business process that hinders rather than helps organizations to take control of their future. It is difficult to get a good definition of strategy because:

- Too many strategists focus on the grandest strategic dilemmas. They write about how to shape a new business to take advantage of a breakthrough market opportunity. These are serious and real challenges. However, they trouble mid-sized and small businesses extremely infrequently, and only occasionally affect large multinationals.
- Many of the texts ignore the fact that there are boundaries for most organizations. The typical business is caught in a web of past financial commitments, current competencies and future contracts. The problem is not to seek new places to do business, but rather to take the greatest advantage of current opportunities.
- While there are boundaries, the amount of freedom you have within your available options is too often underestimated. Strategy is as much about choice as it is about analysis. I have found that those organizations that dream the big dream, pick the seemingly unattainable goal but also develop a great strategy are the ones that end up dominating their industry. If you ask the questions 'Where do we want to be?' and 'What do we have to do to get there?' and then have the courage to do what it takes, then success is likely to be the result. Most writers do not appreciate the blending of art, science, passion and performance that makes a good strategy.
- Most strategy books are interesting but leave you no closer to being able to complete a strategic planning project at a practical level. They present strategy as a theoretical pursuit, rather than a way to make practical decisions.

The consequence is that the definition of ‘strategy’ is overburdened by grand models put forward by theorists for multinationals. The average organization is left with an understanding of ‘strategy’ that is distorted and impractical.

Strategy should be about thinking clearly and acting deliberately, so that you can get the most out of your current and potential opportunities. This book provides you with the concepts you need to perform this thinking, the tools you need to gather the necessary information, the techniques you require to make decisions and the frameworks to translate your conclusions into practical action plans. When you have completed the exercises, data gathering, analysis, the two workshops and the implementation plan, you will have a map to your best future possible.

This book uses a practical definition of strategic planning, as follows:

Strategic planning is gaining insights about where you are now, gathering the information that identifies where you should be in the future, generating the decisions that will give you a unique position, and then defining the actions that will bridge the gap.

Strategic implementation is defined as:

The ongoing application of those decisions and actions so that the outcomes are achieved.

This is a book that has been designed for managers who own/work for organizations that are already established. It has been written in the expectation that, if you are reading this, you are the person responsible in your organization for making strategic planning happen, which means that you are the CEO, you are in planning/finance... or you were away when the other members of the management team voted on who should do this year’s strategic plan.

This book is practical, eclectic and pragmatic – it gets the job done. The tools provided in this book are a mixture of my own diagnostic and analytical techniques and decision-making processes, along with many of the strategic planning standards and favourites.

The book is written to show you how to generate good information for decision making, without expecting you to take a couple of months off to find the data. The exercises show you how to make the kinds of practical decisions that enable you to build on your past, so that you can secure success in the future. The workshops show you how to go about identifying what practical strategy means for you in your organization – whether it is large or small.

The book applies if you own the organization, run it, or manage a bit of it. In the book I have considered customers as people/organizations that pay money for your products or services. However, many of the same concepts

are relevant if you are in the public/not-for-profit sector – just substitute other outcomes for financial benefits – and the processes and messages apply.

This kind of ‘universal applicability’ is possible because the book provides you with the key issues you need to consider so you are able to identify what you need to know to develop a set of options, and it then gives you the frameworks that help you to pick the right one.

ACKNOWLEDGEMENTS

It is not easy writing a book, particularly when your office is attached to your home.

I am fortunate that I have been blessed with a wife – and business partner – who understands when I would welcome a distraction and when I need to be left alone, who knows when to give me a push and when to rein in my enthusiasm, and who has been an excellent editor and constructive critic of all the drafts. So, Gayle, thank you for living through yet another edition with me.

I would also like to thank all the people who have guided my development as a strategist, and all the clients who have rewarded my involvement in their strategic processes with so much effort and enthusiasm. In particular I would like to thank Geof Johns, who is a great strategic thinker and constantly challenges me to try a little harder and reach a little further.

Turning a manuscript into a book is no small task. I would like to thank Pauline Goodwin for starting the ball rolling, and Jon Finch who oversaw the production of the first two editions. I would particularly like to thank Nicola de Jong who provided fresh ideas and a new framework for this edition as well as managing all the steps that have brought it into your hands.

I would also like to thank Roy Stanton for working with me to film the 40-minute video about the strategic retreat that accompanies this book (see Kogan Page website).

ABOUT THE AUTHOR



Neville Lake is a Registered Psychologist, an internationally recognized strategic planner and a business improvement specialist (which is an unusual – possibly unique – combination). He has worked for three of the world's largest consulting firms, written seven books, visited over 100 best-practice organizations, consulted to over 150 businesses and has been applauded by over 500,000 people in countries across the world. He established his own business, The Lake Group, in 1998.

Neville has developed his understanding of how businesses work through visits to world best-practice organizations, including British Airways, Cadbury Schweppes, Citibank, Disneyland, Federal Express, Harrods, Mars, NASA, Ritz-Carlton, Rolls-Royce, Shell, Starbucks and Wrigley's. The knowledge he has collected, and the wisdom he has achieved, has been applied in strategic planning assignments with leading organizations.

Neville specializes in facilitating strategic retreats, and has helped organizations to: a) clearly define what they should become; b) map a pathway to achieve those goals; and c) develop and implement a detailed and practical action plan. Neville has also helped to reshape divisional performance, revitalized processes (such as customer service), designed business transformation and coached senior managers. He has worked with clients in locations around the world, including Australia, China, Europe, Hong Kong, India, Indonesia, Malaysia, New Zealand, Saudi Arabia, United Arab Emirates (Dubai), the United Kingdom and the United States.

A powerful, entertaining and informative speaker, Neville blends facts with examples, stories with case studies, and ideas with implementation strategies; he delivers profound messages with a light touch and plenty of humour. He has featured in a BBC documentary, spoken on radio, appeared in the press and written many articles.

His other books include the forthcoming *Practical Strategy* (aimed at the busy manager who is looking to put together a powerful plan in a short space of time, this new title will complement *The Strategic Planning Workbook*), *The Customer Service Workbook*, the best-selling *The Third*

Principle: How to get 20% more out of your business, and The Greatest Planet in the Universe.

Neville has developed unique diagnostic tools that reveal unseen business opportunities. He asks questions that compel people to examine how they gain results and provides the techniques and inspiration to help people to renew their businesses.

Please visit Neville at: **www.lakegroup.com.au** for free videos and articles.

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Getting a bigger brain

01

How to think like a strategist

The business wasn't doing well.

Sure, every year it made more than the year before. But that wasn't the point. With the customer contacts, position in the market, accumulated knowledge and intellectual property that they had, Malcolm knew that this business was maybe half of what it could be – or should be. He knew that if he could really focus all the resources in the business on those opportunities that would deliver the greatest benefits, the sky would be the limit.

In three months he was scheduled to lead a 'strategic retreat' with the senior management team. They had done these before, with the same result: a tedious repetition of each person's ambitions for the future followed by some scrappy action planning. Then it was all forgotten a month later. If he was honest, the best part had been the dinner.

This time it would be different. This time he would force the group to 'think strategically'.

Malcolm is right. All strategy starts with strategic thinking.

Strategic thinking is not the same as strategic planning. Strategic thinking involves stepping back from your organization so that you can view it in a way that helps you to understand what is important today, and what you need to do to make it successful in the future.

Strategic thinking is different from the kind of thinking that you do every day. For example, sketch your organization on a piece of paper. Draw the people (as matchstick figures if you need to – no one is going to see it), the premises, the bits of equipment that you use and the customers who are

the lucky recipients of your outputs. Briefly list what people do, and what customers get.

Now draw another picture that shows how and where value is created for you and your customers, where the greatest areas of opportunity and the weakest links are, where there is untapped potential, where there is over-investment, where you are trapped by past decisions, and where you have the most direct path to increased profits. This is not such an easy picture to draw.

The second picture is a challenge because we typically think about our organizations in terms of what we do, not in terms of where the value is hiding or what we could be doing instead. You need a different approach. This is what strategic thinking is all about.

Contrary to popular belief, strategic thinking is not rocket science. It simply requires that you collect different data and use the right models to help you understand what really happens in your organization, and where the possibilities reside. It is a viewpoint that you will develop as you read this book.

By the time you complete all the chapters you will see your organization in terms of value, and what you need to do to deliver that value. You will be able to recognize sub-optimization and see opportunities. As you progress through the exercises you will learn how to gather the data that you need and how to apply the models that will make sense of that data. You can then achieve the future that you want, the returns that your shareholders deserve, and opportunities that your employees expect.

By the time you get to the end of this book you will wish that you had been familiar with strategic thinking right from the start. This chapter is designed to get the right kind of thinking started now. Consider it as the essential warm-up before the main event.

Strategic thinking can be summarized by three sets of four questions.

1. The really big questions

- What business are we in?
- What is possible for this business?
- What is our uniqueness?
- What is important to our success?

2. The key tactical questions

- When do we create value for our customers and for ourselves?
- Where are the areas of greatest opportunity?
- How much money do we want to make?
- What do we have to do to sustain optimal levels of performance?

3. The true operational questions

- What needs to be done?
- What gets priority?
- Who will do this and by when?
- What is the best way to complete the steps?

Within these questions are the insights that will help you to make sense of your organization today and that will lead you to develop it into the organization that it needs to be tomorrow.

In this chapter I have covered the big questions and the tactical questions, so that you have a strategic and tactical perspective before you start to gather the data. The operational questions are not described in detail here. These are embedded in the action planning activities described in this book. The other parts of the book are written so that you can collect information with others or lead discussions. This part is written primarily for you – to be enjoyed on your own to prepare you for all that is to come.

The really big questions

What business are we in?

There are three parts to this question: What business are we in now?, What business are we not in? What business should we be in?

What business are we in now?

There are typically two answers to this question. The first one is ‘Duh, that’s obvious. We do... (whatever your business describes itself to be on your website)’, and the second answer – which is a real description of the business.

The reason that there are two answers is that business terms are imprecise. If you were to collect up a bundle of organizations that all apparently did the same thing and pull each apart, the chances are that you would find that each had a different emphasis, each had different customers and each had different kinds of products/services. There could well be some that were so different that they were really in a different business altogether.

The problem is that an organization starts by using a label of some sort (white goods manufacturer, law firm, supermarket and so on). The label used is imprecise, and means different things to different people. This organization then evolves by small increments over time. Individuals still apply the label, and think of themselves as belonging to that kind of organization

without seriously challenging what that label means, or checking if the label still applies.

A quick way to find out what business you are in is to independently ask three senior people to describe what the organization does, and which customers are the beneficiaries of these efforts. These three people are not allowed to use any labels or commonly accepted descriptions of organizations.

Then ask three ‘why’ questions – which quite simply means asking the question ‘why’ to the answer given, three times (‘to make money’ is not the answer at this point – it is too broad). The persistent use of ‘why’ (you can ask it five times if you think that you can get away without it being too irritating) forces people to get back to key issues. The chances are that you will have different answers from each person.

TABLE 1.1 ‘Why?’ questions

What we do and who the customer is	Why?	Why?	Why?
Person 1			
Person 2			
Person 3			

The shock value of this little exercise gives you the impetus to extend the questioning to more people. Keep asking the same questions until you get no new answers. Then list all the different responses, using Table 1.1. Now, lump together those responses that broadly describe the same activities and outcomes for the same customers; use Table 1.2.

TABLE 1.2 Common activities/outcomes, customers and reasons

Common activities/outcomes (what)	Common customers (who)	Common reasons (third why)

Then rank order the items on your list in Table 1.3 by how often people picked that definition of your organization.

TABLE 1.3 What, who and why

Rank order	What	Who	Why
1			
2			
3			
4			
5			
6			
7			
8			
9			
and so on			

This is what you really do – right now. It may be an untidy description – the what, who and why may not perfectly line up (which tells you something), but it is an interesting snapshot. It is probably different from the way that you describe your organization on your website.

A more scientific, but longer, way to get to the same end point is to briefly analyse the different business segments that are covered by your organization (do not invest too much time here, you will complete a detailed analysis later on).

A segment exists when you can identify:

- a set of activities/products/services that are clearly different from each other;
- different customers who receive the same product/service;
- a defined geographic region with a set of customers who consistently buy your products and services.

List all the possible segments that you have and then rank these by value to your business; see Table 1.4.

TABLE 1.4 Segments by product, customer and geographic region

Segments by product	
Segment	Rank order
	1
	2
	3
	4
	5
Segments by customer	
Segment	Rank order
	1
	2
	3
	4
	5
Segments by geographic region	
Segment	Rank order
	1
	2
	3
	4
	5

The chances are that the first few items at the top of the list represent the bulk of the value in your organization. Typically the Pareto principle (the 80:20 rule) will be at work – you will find that 80 per cent of the value delivered to your organization comes from only 20 per cent of the items on the list. This is the business that you are in. It may have no logic to it, it may make no sense, it may not fit under any commonly accepted label – but this is it.

What business are we not in?

This is another face of the question about the nature of the business that you are in. It is a question in its own right, and the answer is particularly important.

The decision not to develop in a particular direction, not to challenge specific competitors, and not to offer certain products/services places boundaries around your organization. The trouble is that too often decisions taken in the past (in response to the circumstances of the day) are never properly reviewed. In this way the past keeps on influencing the present – and possibly denying you a future.

For the moment, at the beginning of the strategic process, consider these questions:

- What decisions has your organization taken that exclude you from pursuing opportunities?
- What could your organization be doing (with the available resources that are within the skills of the existing people) if some of those decisions were reversed?
- Are there real opportunities for your organization if those restrictions were lifted?
- Why are you not taking advantage of these opportunities?
- Is it possible that if some of the boundaries were lifted, you would be able to develop your organization with little extra investment in resources?

These questions may suggest that you need to free your business from the cumulative effect of too many past restrictions. That is an interesting piece of information to have at the beginning of your strategic process, and can be noted down. However, also consider that too few limitations also create their own set of problems.

If there are few restrictions in your organization, then it may have been driven by the personal preferences and passions of the managers who have been in positions of influence over the years. In this case lots of forays into different markets will probably have left a legacy of a multitude of marginally successful products in different segments, which have the combined effect of soaking up management attention and weakening your business. You will see this in the analysis of segments. If there are many small (not particularly profitable) segments, then you are probably the victim of insufficient boundaries around the business. To capture this thinking, complete the gains and drains table.

TABLE 1.5 Possible gains and drains

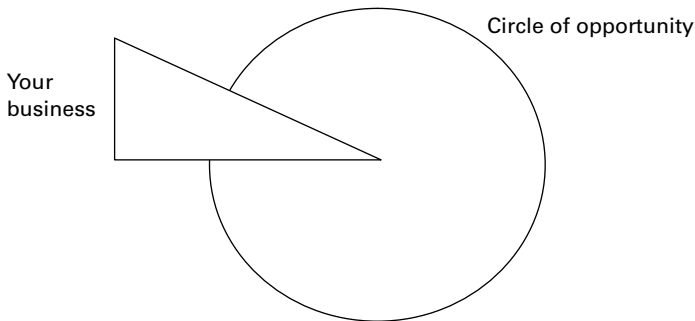
Possible gains		
	Why is this currently 'off limits?'	Possible value
1		
2		
3		
4		
5		
Possible drains		
	Why has this evolved?	Possible cost
1		
2		
3		
4		
5		

What business should we be in?

Your challenge is to match your capabilities with the opportunities. You have a jumble of opportunities available (some are promising, and some

are not worth the effort) and these represent your ‘circle of opportunity’; see Figure 1.1. Most businesses have a limited quantity of resources (people’s time and money) and virtually unlimited opportunities. The trick is to concentrate your resources on those opportunities that will sustainably deliver the greatest amount of value to your business. There is a place in your ‘circle of opportunity’ that is exactly right for your business.

FIGURE 1.1 The circle of opportunity



Think carefully about this picture. It is the summary of all that you will be doing in this strategic planning process. As you progress through this book you will be looking for the places where the areas of greatest opportunity reside, where your uniqueness is centred and where you will find the resources that you will need to achieve your best possible future.

For now, consider your current situation. Your organization already has a trajectory into the future, and a momentum that is carrying it forward. If you do nothing, then you will carry on in much the same direction. Ask yourself the following questions:

- If we change nothing, what kind of business will we become?
- Is this where there are the best opportunities for us?
- If this is not the kind of business that we want to be, what is a better alternative?
- Do we have the resources to become this alternative?

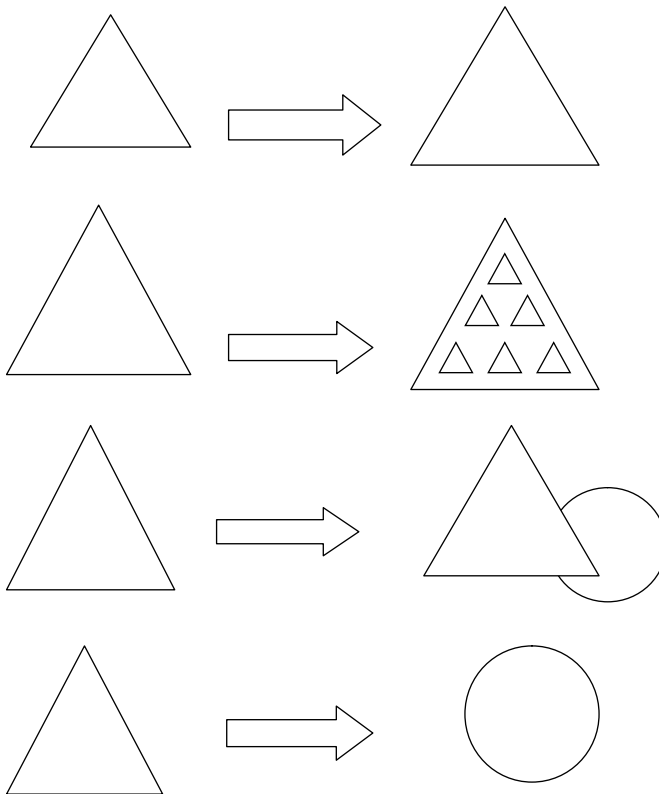
These questions may be difficult to answer, and may be troubling. They should be. You are not ready to fully answer these questions now – at the beginning of the process – but keep them on a piece of paper and refer to them often as you gather and interpret the information that you will collect as you progress through this book.

What is possible for this business?

As you progress through this book – and through the strategic planning process – one of the most important questions that you will struggle to answer is ‘What is possible for this business?’ You will return to this question several times in your strategic journey, and to help you to process it successfully keep in mind that there are really only four choices:

- 1** Stay the same, and get better (improve).
- 2** Stay the same, and get bigger (replicate).
- 3** Keep some parts the same, and introduce parts that are different (evolve).
- 4** Become substantially different (reinvent).

FIGURE 1.2 Four choices



1. Stay the same, and get better

Few businesses can stay exactly the same. New technology, competitive pressures, customer opportunities and so on will compel you to change. However, there are a few that can – and will – stay much the same. At one end of the scale these types of businesses could be small, unique, in a niche market and able to produce stunning profits for their owners, or at the other end, they could be organizations that have boundaries imposed. Some public sector or public-sector type organizations fall into this category.

2. Stay the same, and get bigger

Some businesses become larger versions of themselves. Where they currently produce 1,000 units for sale, they will produce 10,000 units, or where they once served 100 customers, they now serve 1,000 customers. For example, these are the chain stores or franchises where more and more identical units are added on. Now of course scale adds complexity, so they also have to get better, but the basic business model is one of replication rather than reinvention.

3. Keep some parts the same, and introduce parts that are different

This choice is right for organizations that have enough competency and cash to take advantage of a new market or technology. This foray into something new may be achieved for different reasons and in a number of different ways; for example, a) reducing uncertainty or costs by acquiring a supplier, b) opening new doors and reducing costs through merging with a competitor, c) leveraging customer relationships by developing compatible but different products or services.

4. Become substantially different

This is often a ‘bet the business’ choice if it applies to a large portion of the organization, or ‘bet my job’ if it is focused on a narrower section. This is the choice for those organizations that are really in the wrong spot in their circle of opportunity and have to make some big changes or go to the wall.

Of course, these are not ‘either/or’ choices that apply to the whole business. It may be that different parts of your business will receive different treatment, and it is important that you are crystal clear about which choice is in play.

For the moment, consider the key parts of your business over the next five years and place them in Table 1.6.

TABLE 1.6 Categorizing the key parts of your business according to the four choices

	Which part should receive this treatment?	Why?	What are the implications?	What could this be worth (in \$)?
Improve				
Replicate				
Evolve				
Reinvent				

The final column helps you to make an initial assessment of ‘what is possible’. If you have enough information you could complete the same table again, but this time with a 10–15-year horizon.

What is our uniqueness?

It was a tough decision. There were several proposals, and they were all around the same price. James was in charge of the tendering process, and he knew more about the hopefuls than everyone else. He was getting a real grilling from the selection panel.

The question he had just been asked was ‘So, what makes this business different? It seems to offer the same as the others, but has nothing particularly special.’

James thought hard. The answer came to him. ‘Nothing,’ he replied. The panel put that proposal to one side.

If you own, or know, or can do something that no one else can readily replicate then you have an edge. If customers value what makes you unique, then you are going to be busy. If large numbers of customers are willing to pay a premium for whatever you have that makes you unique – then you are going to be rich.

Ask five people in your organization what delivers your uniqueness. Ask five customers the same question. If you get different answers then you have not properly identified and articulated what gives you a special place. If you have identified no particular uniqueness at this stage, then as you progress through the strategic planning process you should be looking for information that suggests where this might lie. As the data comes to light ask yourself two questions: ‘What is the most likely source of our uniqueness?’ and ‘What would we have to do to develop and/or sustain that uniqueness?’

If you are able to identify where you have uniqueness then ask the follow-up questions: ‘In what way does the customer value this uniqueness?’ and ‘In what way does this uniqueness help us to make money?’

In what way does the customer value this uniqueness?

Having uniqueness and making sure that your customers understand and appreciate that uniqueness do not necessarily happen together. There are plenty of electronic products, computers and car engines that have a unique feature which is so exciting to the designers that it keeps them awake at night – but is of the utmost irrelevance to the customer.

A good way to focus your thinking is to consider the well-used distinction between features, advantages and benefits (FAB analysis). This has been a standard in the advertising industry for many years, and is a practical way to help organizations to see what they do from the point of view of the recipient. The definitions for each are:

- Features are the characteristics of the product/service.
- Advantages are those aspects of the product/service that are in some way different from the competitors’.
- Benefits are the value that the customer gains from using the product/service (and are often about money and time).

So, to take a straightforward example, the writing style for this book would have the following FAB analysis:

- Features – is written in an accessible style.
- Advantages – the analyses and exercises are easy to follow.
- Benefits – you can quickly identify how to improve profit and ‘strategic strength’.

The trick in progressing from one to the next is to identify a feature and then add the words ‘which means that’ until you find an advantage and then a benefit. Again, using the book example, the FAB analysis written as a sentence is as follows: ‘The book is written in an accessible style, which means that the analyses and exercises are easy to follow, which means that you can quickly identify how to improve profit and strategic strength.’

The customer (in this case, you) can assess this book against others. As the competition is not advertising their books as helping you to ‘quickly identify how to improve profit and strategic strength’, then this book has a uniqueness which makes it attractive.

Try this with one of your products and/or services, using Table 1.7.

TABLE 1.7 Features, advantages and benefits (FABs) of a key product/service

Key product	Feature:
	Advantage:
	Benefit:
Key service	Feature:
	Advantage:
	Benefit:

With the distinction between features, advantages and benefits in mind, think clearly about your uniqueness from your customers’ point of view. Imagine that you have bought a full page of advertising space in the magazine that is read by most of your customers. You are going to write one sentence in the middle of the page that punches out the message about your organization’s uniqueness. What would you write in Table 1.8?

TABLE 1.8 Uniqueness of your product/service

Our product/service is unique because...

This is good for you because...

You really need this product/service because...

If you have no crisp answer to this question now, then make sure that you collect enough data to easily provide the answer by the completion of the strategic planning process.

In what way does this uniqueness help us make money?

If you found a good, strong statement for your uniqueness, then it will be relatively obvious how you can use this to make money. However, in some cases the uniqueness you have may not be particularly exciting to the customer, but it enables you to deliver products/services at a high quality and low cost.

If this kind of uniqueness applies to your business, then complete the same kind of exercise, with Table 1.9, and imagine that you are still going to write the one sentence for a magazine – except this time it is one that only shareholders will read. The sentence that you create will be about the special bottom-line advantage of your uniqueness. This will not necessarily be shared with customers, but it will appear where it is required to shape decisions within your organization. Again, make sure that you collect the data to enable you to answer this question during the strategic process.

TABLE 1.9 Uniqueness of your organization

The way we run our business is unique because...

This is good for you because...

You should invest your money with us because...

Developing a clear statement of uniqueness is not easy. If you cannot find one at the moment do not despair; it is early days in the strategic planning process. It is also worth bearing in mind that while most businesses have some form of uniqueness, this is not true of all. If it turns out that you do not have uniqueness, and there seems to be no easy way to develop it, then it does not mean that your organization has no legitimate place, nor does it

mean that you will not be able to operate profitably. A lack of uniqueness is manageable if you are the kind of organization that is in the relationship with your competitors where you are ‘in the waiting room’, or better still ‘trawling’ in a large pool of customers (see the comments about competitors in Chapter 2). In these cases there is plenty of demand, and if the supply of businesses able to meet that demand comprises many small players, then everyone has the chance to make a profit. But beware: there is a danger that large players will develop to take a big slice of the market – and maybe your business.

What is important to our success?

The greatest influence exerted by managers is where they place their attention. If your measures are about financial performance, if all the management meetings are about financial performance, and if all the reports that are generated are about financial performance, then the focus of all the managers in your organization is going to be about (guess what) financial performance.

What you define as important, and how this importance is embodied in your measurement systems, are perhaps the most powerful of all strategic messages, and drive everyday performance. Where do you think something like a customer service programme, or a human resource change, or a programme to develop and sustain ‘respect’ will sit in an organization that is totally financially driven? That’s right, at the bottom of everyone’s in-tray – no matter how often people say that these programmes are important.

The secret to working out what is really important is not to listen to the rhetoric. It is easy to put together a few slogans, and they are quickly forgotten. Rather, look at what kind of information is gathered and how this is used to fuel the measures. People know that what gets measured gets attended to, and everything else can wait – perhaps forever. Consider these questions:

- What kinds of information do you gather about organizational performance?
- What do the bulk of your measures cover?
- What do you spend most time talking about at management meetings?
- What do people infer is important from where you invest your attention?
- How does this perception drive the way that they emphasize and complete their work?

It is probable that most of the attention is directed towards financial performance, and it is likely that most of the financial information is about what happened in the past, not what is likely to happen next (which is why we are not practised at predicting the future). Consider the implications of the messages you are sending to the people in your business by where you put your attention; and toy with the idea that a change in focus will be amplified throughout your organization.

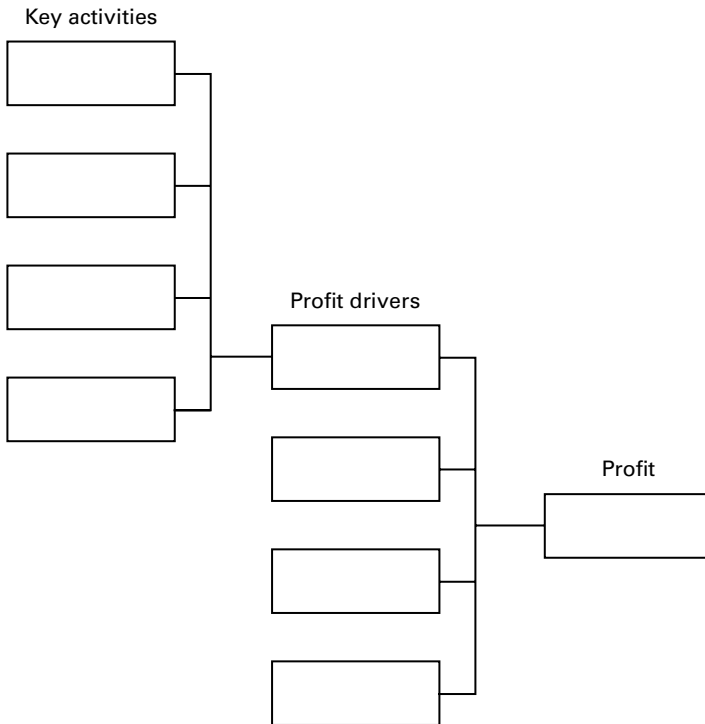
Now, think about your organization in a different way. Think about what really drives success today.

Try this simple experiment. Find a tall building in a large town/city. Stand at street level and concentrate on the experience. Be aware of the buzz of the traffic, the blur of people rushing by, the smell of machinery and buildings, the effect of the weather conditions. Now, travel in the lift to the executive floor at the top of the building, and look out of the CEO's window. You could be on another planet. Your surroundings are quiet, unhurried, and sanitized by air conditioning. You can see the clean edges of the surrounding office blocks with their gleaming cliffs of windows, the hills in the distance and the sky above. The individual people and the traffic are tiny and insignificant.

Too many organizations have a picture of the business that is like the view out of the CEO's window. Up here aggregated figures represent activities, numbers of employees replace individual names, trend information about customer preferences takes the place of gut instinct, and relentless waves of financial data feed mathematical models that are supposed to show if the organization is still on track.

The most common mistake organizations make is to think that this view of the organization is the real engine room of current profit and future success. It isn't. It is a shadow. This thinking has robbed many businesses of their future, it has cost many shareholders a lot of money, and it has cut short many promising careers.

The profit tree, shown in Figure 1.3, is a powerful way to highlight those places in your business that truly make a difference. This shows how an organization really works. Essentially, this model shows that profit – in the box on the right – is a blunt measure. Profit is the consequence of properly managing a number of 'profit drivers'. These profit drivers (typically from four to six of them in most organizations) are in turn made up from a set of 'key activities' (maybe 20 to 40 in total). It is at the activity level that real control is exerted. Make a list of what these are in your business.

FIGURE 1.3 The profit tree

You can now see the 20 to 40 key activities that deliver profits to your organization. These are activities that you can control. This is where you should have the key measures for your organization, and it is these activities that senior managers should talk about with front-line employees. Take a look at your current measures. How many of the key activities are made important by a significant measure? How many are currently left out all together?

Two outcomes immediately flow when senior executives start to talk about the activities at this level. The first is that they connect with managers and front-line people. Now the people at the top are talking about activities that they recognize (not the more general concept of profit, which they do not). Secondly, by specifying what they want to happen at the activity level, those at the front line know what they have to do, and can respond in a way that delivers the intended outcome. When you put together the implementation plans in Chapter 8, you need to make sure that the outcomes you want are delivered by activities that are properly measured using a profit tree.

So, you have now covered the big questions. At the beginning of the process these questions will serve to make you think about your organization. These big questions will raise more questions and they will direct your attention to the kinds of data that you need to gather. Towards the conclusion of the process (in the decision-making workshop) these big questions will surface again to help you to find the answers that will define your business and focus attention.

The key tactical questions

The key tactical questions are answered by the data that you will gather as you complete the exercises in this book. To help you make sense of the data as you collect it, keep the following questions in mind. You will cover some of this ground again later in the book, and when you do it will make a lot more sense because you will have started the right thinking on these pages.

When do we create value for our customers and for ourselves?

Brian looked out of his office door. He could see the usual shuffle of activity. People were carrying bits of paper around, they were in little knots talking to each other, and the meeting rooms were full. There was so much to do, and Brian had another request from the supervisors for extra staff. He had no choice – if he wanted to get the work done he needed the people.

Every day people complete thousands of activities in your organization, probably tens of thousands. When you walk through your organization everyone is busy. The fact that everyone is always busy has nothing to do with the amount of work that actually needs to be done. What fills people's days is a jumble of activities that truly make a contribution and those that – to be brutally honest – need not have been completed at all. The trouble is that it is difficult to tell the difference.

The problem is that work grows like weeds. Think about what would happen if you took an average employee, put him or her in an office with a desk and a phone – and then left him or her alone. No instructions, no tasks. Then you came back in six months' time. You would find that the person had phone calls to return, meetings to attend, travel requisitions for you to authorize. He or she would have found 'work'.

To get a rough picture of how much real work is being completed in your organization, imagine that you have three different coloured 'Post-it' notes. Imagine that you could stick yellow notes on those activities that create value for your customers, blue notes on all those activities that create value for your organization, and red notes on those activities that do not make much difference to either. How much red are you going to see?

The chances are that there will be between 20 and 40 per cent of what is going on in your organization that will attract a red sticker. (If you are interested in this, then there is more in my book, *The Third Principle – How to get 20% more out of your business*, which is available through www.lakegroup.com.au.)

You will find it easier to centre your activities on those that you want to retain if you keep clearly in mind that the purpose of every organization is to create value for itself and its customers. To create value for your customers you need to be absolutely sure what makes a difference to them, and you need to continually monitor changes in their needs, wants and expectations. You also need to be sure what they are able to get from your competitors, and why they might take their business elsewhere.

To create value for yourself you need to be clear about how to complete the necessary activities in the best way possible. This means having a clear understanding of all the processes, and having ways to refine those processes so that they work in the optimum way.

There are many other activities that will creep into any organization. There will be plenty in yours right now. All those red activities – sapping your time and draining your resources. The more of these you carry, the less competitive you will be. Use the data that you will gather in Chapters 2 and 3 to identify where value is created and destroyed in your organization.

Where are the areas of greatest opportunity?

Think about a huge supermarket. You can pick whatever you want from any shelf, but you can only have a limited number of items in your shopping trolley at any one time. You can only put a new item in when you take an existing item out. You need to make sure that the basket always contains those items that you value the most. Life is like that – the search for the best set of choices from an almost infinite set of options.

Your organization is like that too. The trick is to identify those options that will deliver the best of outcomes and the greatest amount of profit to your organization with the least amount of effort, both now and in the future.

The chances are that some of your time and activities today are not centred in this zone. You need to stop investing in these as soon as possible.

It is also highly likely that you are not taking advantage of some of the opportunities that are naturally yours in the marketplace. You need to rapidly start to capture these opportunities before someone else does.

Many of the diagnostics that we will use in the next two chapters will help you to identify these, but for now – as you get yourself oriented towards thinking tactically – consider these questions:

- Which processes generate the most value in your organization right now?
- Which processes are likely to generate the most value in the future?
- Which products/services generate the most profit now?
- Which products/services are likely to generate the most profit in the future?
- Which customers give you the greatest return now?
- Which customers are likely to give you the greatest return in the future?
- Which customers waste your time and money?
- Where is there greater capacity to do more work with high-return customers?
- Where are there more of the kinds of customers that you would like?

Most organizations can recognize relatively quickly where value is generated and can list a bundle of customers that they should not have, and identify those that they should.

How much money do we want to make?

The phone's persistent ringing shattered the silence. Alan ran down the hall, his heart racing. A 2 am call is never good news.

'I'm coming back to the city.' It was the alcohol-assisted voice of his best friend. 'I like the work well enough, but I can't live on this kind of money. There is no job in this village that will pay me what I need to live the lifestyle that I want.'

'Didn't you know that when you moved out there?' Alan was blunter than usual, but then the small hours of the morning would do that to him.

'I knew the numbers, but I didn't really know what they meant – if that makes sense.'

Alan understood: his business had just made exactly the same mistake.

How much money you want to make is a key question – especially for small and medium-sized businesses and particularly for those just starting up.

Too many small businesses start with a model that will not generate enough money for their owners and will never give them enough to buy what they need to create a good future.

It is a simple but powerful question to keep in mind throughout the strategic planning process. Spend a few minutes right now sketching out the costs of doing business (and add 20 per cent) and the amount you need above those costs.

Consider the risks you are taking and add up what your lifestyle requires – now and in the future. Make sure that this figure is going to be comfortably achievable even in a poor year. If it isn't – do something else, reconsider your approach or accept this is a 'lifestyle choice', and start with the expectation that you will not be able to enjoy some of life's little luxuries.

Now, this might seem a little harsh. Even a breakeven florist has the opportunity to escape from basic income levels to enjoy financial success, if the model is to have a number of stores, or to franchise, or to deliver services at low cost, or just to have a really good location. However, you should know all this before you start. You should know that the first store is the first step, not the end point for the dream. Forecasting out the money and knowing your figure for how much you want to make is an important part of the strategic process.

For those of you in a big organization that is shovelling away impressive amounts, this is less of a critical question (most of this is dictated by a CEO, a Board or by market pressure). However, you may find it interesting to ask this question about yourself. How much do you need to earn to enjoy your chosen lifestyle and be able to fund your retirement? If you are falling short, then the remedy is obvious. If you are well in excess of the required figure, then you may want to pause and reflect on what you are doing and why. (Not really part of strategic planning I know... but worth a thought.)

What do we have to do to sustain optimal levels of performance?

Once you have asked the questions 'How do we create value for our customers and for ourselves?' and 'What are the areas of greatest opportunity?' and implemented a change plan, you will have got close to becoming optimized. The chances are that you will not stay in that state for long. Sub-optimization is strangling just about every organization in the world.

As soon as you install a brilliant process, the people at the front line will introduce minor variations, the supervisors will make amendments, and special circumstances will drive distortions. After a while that brilliant process has too many steps and it costs too much. Assume that any part of