Strategy and the Business Model

Based on Technical and Commercial Foundations

Technical System/Capabilities

The world of Olympic basketball changed the year that professional athletes, rather than amateurs, were able to compete for their countries. In 1992 the United States brought together its top basketball players, along with the top technical training in the world. As predicted, the U.S. team swept the Olympic Gold, beating teams by 40 to 60 points in most cases. They were able to demonstrate their technical prowess on the court. The core of these abilities to shoot, dunk, and guard, when combined with the physical attributes of the athletes in height and speed, make up what we refer to as the team's technical system and capabilities. However, while such attributes may get you in the game, they aren't always enough to ensure you'll win.

During the 2004 summer Olympics in Athens, Greece, Lithuania defeated Team USA, which was composed of the biggest NBA stars of the time, including, Allen Iverson, Stephon Marbury, Dwayne Wade, Carmelo Anthony, Carlos Boozer, Tim Duncan, Amar'e Stoudemire, and the league's future superstar, LeBron James.

Of this stunning upset, the Washington Post wrote:

> *ATHENS, Aug. 21 -- Sarunas Jasikevicius's story is a case of, if you can't join them, beat them. The Lithuanian guard, who has never attracted the NBA offers he once dreamed of, surely got the league's full and undivided attention Saturday, when he poured in 28 points to lead his undefeated team past the United States, 94-90, the Americans' second preliminary-round defeat in one stunning week of Olympic play.*
>
> *Lithuania nearly upset the U.S. team four years ago in Sydney, but Jasikevicius couldn't hit a desperation three-point shot as time expired, and the United States went on to win the gold medal. This time, the University of Maryland product made 9 of 14 shots, including 7 of 12 three-point attempts, and his 10-point barrage in 69 seconds took Lithuania from three points behind to four ahead with 1 minute 38 seconds to play.*
>
> *The United States has now suffered two losses in Olympic play for the first time.*

How could this happen? The best players in the world—technically—get beat by the smallest country competing in the Olympics? Technical excellence and capability compose the technical system by which athletes and organizations perform. For basketball this includes guarding, shooting, passing, endurance, pace, fakes, dunks, foul shots, blocking, and big-play making. In theory, the best at these variables should win. Yes, these components are critical contributions to the capacity to win, but they are not what differentiate performance. Some coaches point to the intangibles like heart, execution, and the will to win as making the difference. But other possibilities include strategy; leadership on the court; organization or team set up, including the role of the back office; the make-up of the players or human capital; and the culture of teamwork and winning. Or it could be how coaches and players govern performance and make adjustments based on performance indicators that indicate a need to change the mix of plays, which may lead to an overall, long-term transformation.

Although all these factors contribute to the ability to perform and compete at a high level, the starting point is the technical system and core capabilities built around the value proposition, or what the team proposes to achieve and deliver of value to its fans whether that be a winning season, a national championship, or the Olympic Gold.

Coaches often work with their athletes, even those who are highly experienced, to focus on the fundamentals. In American football we call that the blocking and the tackling. So, if an organization is going to have any chance of competing, what are the blocking and tackling for the technical system and capabilities? There are five primary areas of focus:

1) Mapping the technical landscape requirements for your business or industry segment
2) Knowing the key performance requirements for products and services
3) Mapping the technical work process
4) Identifying the technical capabilities and key positions required
5) Defining the measures of technical excellence

Mapping the technical landscapes requirements for your business or industry segment

Each industry has its own language, nomenclature, processes, and identifiable common practices, each of which has been engineered and shaped from years of experience and the movement of resources across companies. In 2007 I resigned from one of the largest oil companies in the world to go to one of the largest consulting companies in the world. Despite what I thought was my extensive corporate experience, it was like landing on another planet. The focus of the work was totally different. I started to learn about the importance of project management. PowerPoint slides became essential in communicating ideas and were required to be designed with a particular look and feel. The process of selling work became very important, and developing long-term relationships through client relationship management was critical. Filling out time charge sheets every two weeks was a staple, and following the contracting and billing process was another key feature. I soon learned that developing client sponsors made or broke projects; and if a sponsor was transferred, projects were in jeopardy of being shut down overnight. Knowledge capital and knowledge management systems were important to develop, as well as access best practices. Underpinning all of this was having road warriors who could hop on a plane at a moment's notice and be ready travel anywhere in the world.

This was a new world that had to be learned, with a competitive landscape focused on key capabilities required for technical excellence. Unlike an oil company, which is very capital intensive, the only capital consulting firms have are their people. This required Individuals to have practical expertise in such areas as strategy, process design, change management, human capital, information technology, and supply chains. This knowledge then needed to be coupled with a primary industry expertise, such as energy, utilities, manufacturing, consumer products, pharmaceuticals, and others. Resumes, or what we called CVs, had to be kept up-to-date to demonstrate the technical excellence and capabilities of individuals assigned to teams. This was all part of the technical landscape required to participate in the world of consulting.

Each industry has its own unique competitive landscape, and yet there are similar protocols for delivering technical excellence. I have worked for or sub-contracted with several different consulting firms, and the technical landscape and culture is uncannily similar.

This landscape is typically approached as common knowledge, but as soon as there are new technology and industry changes, the consulting firms need to be ready to shift their area of focus. In the 1990s the most common IT projects were large ERP (Enterprise Resource Planning) implementations. As the 2000s approached, IT implementation firms branched out into more strategy work, strategy consulting firms tried to get more into the implementation action, and accounting firms found more growth through management consulting. So the landscape can change almost overnight, and such changes require a quick shift in core technical skills and resources.

Knowing the key performance requirements for products and services

This step relates very closely to the value proposition. If one is to compete, what are the features and technical performance factors that are expected of products and services? These features are constantly evolving and maturing; but without a clear focus on what they are, companies will be left behind.

As an example, in a very short period of time, changes in communication technology have exploded. After the initial cell phones (which were roughly the size of bricks), the next iteration was the smart phone. It provided the capacity to not only make telephone calls, but to receive emails, track contacts, keep a calendar, and a few other modest applications. Music was available on a radio, followed by a separate device called an iPod. Then the technology progressed further, with more capabilities on the next generation of devices, including the ability to take pictures and download a few apps to improve one's personal life and business practices. Then memory capacity catapulted, devices got smaller and then bigger, and movies could be downloaded and watched.

The technical requirements for the products changed quickly. Two of the first entrants into the Personal Digital Assistant field were Palm and Blackberry. The market requirements and technology have changed so fast that Palms no longer exist, and Blackberrys are struggling to remain relevant. Samsung and Apple have become the dominant players in this space, with iPods now becoming almost extinct since music is now on integrated digital devices. To play in this game, the consumer requirements and technical capabilities need to be well defined and carefully followed. These include features such as speed, memory, versatility, simplicity, effective communications, and now cloud computing. The shift in technical requirements need to be anticipated and developed by anyone wanting a share of this market; otherwise, they will be irrelevant overnight. Physical products are upgraded annually by many competitors, while software upgrades come out almost weekly.

The requirements are not only evolving for each industry groups, the industries are now crossing over. High technology computing technology is crossing over into the auto industry, with future plans for cars that will drive themselves. (That doesn't sound like fun to me, but the technology is certainly on the horizon.)

Mapping the Technical Work Processes

Every product or service is developed through a formula of work that transforms raw materials and ideas into a quality deliverable. A research organization wanting to move from the conception of an idea into a useable research application must go through a number of steps. Basic research will identify the science and breakthroughs to test a hypothesis for a desired material that can be used for new products and services or for operational efficiencies. Then the science needs to be tested in laboratories for controlled testing of the experiments. Proven science then needs to be developed into applied research in simulated environments or testing plants. When the value of a technology has been proven, then it needs to be applied to a real market application that requires more engineering design, then manufacturing. Each step along the way, often referred to as the value chain, has to be defined at either the macro level (like the above example) or the micro level, if you intend to produce a specific outcome.

In the consulting process, there are a series of steps that usually start with a client who has a felt need. This need is explored through an initial assessment to scope out the project, which leads to a proposal. Once a proposal is developed, complete with work tasks, deliverables, and pricing, it is entered into a competitive bid. The work bid likely includes broader data gathering, data analysis, solution generation and selections, and detailed design and development, followed by implementation. These steps need to be understood and effectively practiced as the key aspects of the technical work for a specific area.

Inside a manufacturing plant, there are specific work processes for producing steel, sheet metal, or freeway bridges. Pharmaceuticals develop their products in highly controlled work environments, following very precise steps to mix the exact measures of chemical elements. Whether at the macro industry level or at the micro product level, the technical processes need to be well defined and developed at a competitively efficient and effective level.

These processes are under constant monitoring for improved practices and efficiencies. The idea of process reengineering became very popular in the 1990s. Processes were benchmarked, redesigned, and in some cases obliterated to help companies more efficiently develop and deliver products and services.

Identifying the technical capabilities and key positions required

This step ties into the human capital arena, but also requires the technical talents that are required to execute the defined technical work processes. If you have a brain tumor, you want a trained brain surgeon who has mastered the process of treating and removing it; if you are designing a landscape, you want a landscape specialist who can plan and execute—with an artistic eye.

Recently we had a small bathroom remodeled. I was a bit surprised that it took about four weeks. First the contractor had demolition experts come to knock out the old walls and hardware. Then a plumber came to take out the old fixtures, followed by a dry wall specialist, followed by a sander and painter. Next, a wood floor specialist came to install the floors. The plumbers then came back to put in the plumbing and new fixtures, followed by a finisher to complete the detailed caulking. What appeared—to me, at least—to be a very simple venture turned out to require a number of very specialized steps, all performed under the direction of the overall contractor, who had the responsibility to produce the desired results. Of course, this all came at a much higher price compared to my simple understanding of what I thought it would take.

One of the most important responsibilities of athletic coaches is to recruit top talent. In the professional ranks, these coaches not only have to identify the athletes who will best fit their teams, but they then have to navigate the uncertainties of the drafts. It is the same for public and business organizations. All strategies and tasks require specified talent to carry out the work. If an organization doesn't hire the right strategically aligned talent, and continue to develop it to the evolving needs of the organization, it will soon fall behind and not be able to compete. Organizations are only as good as the people they hire and how they assemble those people to execute and coordinate many interdependent tasks. In other words, everyone needs to work as a team.

Many organizations get the raw talent they need fresh out of college, with little experience. Management then invests extensively in building their technical capabilities through training and on the job. Others use an approach of hiring experienced technical professionals who can hit the ground running.

Of course, leaders must not only manage their people but also the machines. Technical capabilities are required in information management to manage finance, accounting, and human resource processes. Robotics perform jobs once done by humans, with greater accuracy and routine. Automation has made it possible for refineries that once employed 12,000 employees to run the same throughput with a tenth of the employees. Whether performed through machines, computers, or people, technical capabilities need to be defined, accessed, and employed in the required work processes. Again, this is all foundational to be able to participate in the competitive landscape of a given industry.

Defining the measures of technical excellence

Work is organized into tasks and activities. But all activities should lead to a specific outcome, output, or result. This requires being able to define the expected output or yield a work process. As identified above, capabilities are often a combination of work processes, technologies, and people. Regardless of the mix, there needs to be a measureable output. For manufacturing jobs, those measures are quite easy to establish and monitor. For knowledge and service workers, tracking outcomes can be more elusive, but they can be measured, if thought through. Without such measurements, it is difficult to manage the work, know the level of output you are getting, and produce the desired outcomes.

Robert Kaplan and David Norton developed a measurement system they called the Balanced Scorecard. They divide their measures into two general categories – leading and lagging indicators. Lagging indicators measure what has already happened, such as financial results or production output. Leading indicators are more predictive of future performance, such as investments in training, customer relations, research, and continuous improvements. For technical excellence, the most important measures will be in operation efficiencies since that captures the essence of the technical work that is conducted. (The other measures are also important, but more for indicating the effect of the overall performance drivers.)

Although the primary focus of this paper ison the Technical System and Capabilitiesas the essential foundation for any organization success, how those technical assets are deployed and produce results will largely be determined by the effect of the overall organization performance system.

In September 2014 there was a highly touted stock on the Nasdaq stock exchange: GTAT. GTAT had developed a unique technology of saphire scratch proof and flexible glass faces for iPhones. Demonstrations of its technology proved to be superior and cost effective, although slightly more expensive. Apple had provided GTAT capital loans of over $500 million to manufacture these hard, scratch-proof glass covers for its iPhones and possibly iPads. A day before Apple's CEO Tim Cook announced the new iPhone 6 and iPhone 6 plus, it was rumored that GTAT's product might not be used by Apple initially. The stock started to drop from $18 a share to around $16 a share. At the Apple unveiling of its new products, it became clear that the role of GTAT in Apple's products would be minor for now, except for its new digital watches, slated to come out four months later. GTAT's stock dropped again, to $10 a share. Several weeks later, to the surprise of everyone, including analysts, investors, and Apple, GTAT declared bankruptcy. Within a matter of minutes its stock dropped from $10 a share to 45 cents a share.

So what happened? Did GTAT's technical processes and product become inferior or obsolete overnight? Its sudden failure was baffling and made no sense, particularly since it had developed such a superior technology. The mystery continued as the details to GTAT's situation were not disclosed, due to confidentiality requirements. But it appeared that the downfall of this company, which wiped out over a billion dollars of market cap in a matter of minutes, had nothing to do with its technical capabilities. Instead, there appeared to be something amiss in the way GTAT operated as an enterprise. In other words, its catastrophic missteps possibly had nothing to do with the technology, but with problems within its organization performance system and in negotiating deals and meeting the expectations of its customers, in this case primarily Apple. If an organization is designed to get the performance it achieves, then GTAT's organization performance system failed to produce the performance, even though it produced the technology. But the technology does need to come first, or there is no offering to build a business around and a successful enterprise to endure.

Technical systems are highly visible, and you can see them if you walk into a manufacturing plant. The organization performance system dimensions, however, are less visible, and yet have a powerful positive or negative effect that requires a magnified analysis to diagnose and unravel the illusive effects.

Financial/Commercial

Once a company's technical infrastructure has developed a product offering or service, commercial and financial processes and infrastructures must be implemented if it is to grow, compete, or even exist. GTAT had developed a successful technical product with its sapphire glass; however, that did not save the company from bankruptcy. Although GTAT had an initial agreement with Apple that included significant loans and investments to manufacture the screens, when Apple pulled out the company's debt could no longer be serviced, given the sudden drop in income. In fact, GTAT lost over a billion dollars in market cap in a matter of hours. No matter what other strengths a business may have, at the end of the day it is a commercial entity; and without a strong financial position, it will go out of business, or barely squeak by.

Government organizations and not-for-profit organizations also have strong financial needs and requirements, even though making a profit is not among them. They need to ensure that the value they are creating is significantly greater than the costs and resources they consume. They have budgets that they petition for and then have to operate within (at least in theory). Not-for-profit organizations have to raise money to fund the execution of their missions, and those who contribute generally want to know their contributions are well managed.

A few of the key financial and commercial focuses important to publicly and privately held, for-profit companies will by highlighted, along with the key challenges they face. The following overview provides a glimpse into the financial and commercial considerations that are critical for organizationalal success. These financial challenges include raising capital, managing cash and the balance sheet, getting a return on investment and capital, creating wealth, maintaining accounting controls, and making good commercial decisions.

Raising Capital – This is something the average employees don't worry about. Their primary financial concern is having a job that rewards them for the work they do and getting paid on time. But behind the scenes of all companies is the need to raise and maintain the capital necessary to fund the operations of their business and to invest in new projects. If this part of the process doesn't go well, then the employees' financial stability can be at risk.

One of the main reasons businesses fail is that they run out of capital before they turn the corner to where they can self-fund from a profitable business. There seems to always be more cash going out the door than is coming in. Getting private equity loans, bank loans, and other financial instruments are key to bridging this gap. Having worked with a new start-up oil company, particularly in the upstream oil exploration and eventual production business, I know first-hand that there is a long lead time from start-up to producing revenues from discoveries. The most important concerns the CEOs and CFOs of such companies face is getting the capital to fund their business until they turn that corner of profitability. For some industries, that can as long as a 10-year cycle. Most consumer businesses don't take that long, but each has its own cycle.

Managing Cash and the Balance Sheet – Cash is king when it comes to financial health. I may have significant worth in my personal assets—such as cars, home, and real estate—but if I don't have access to cash when I need it, then I am financially strapped. Some people refer to this as being house rich but cash poor. Similarly, a business has assets. These assets include the current assets—cash on hand, account receivables, or pre-paid expenses to be used within a year. The non-current assets are fixed assets of value, but they are not easily turned into cash. Examples include the plant and equipment, real estate, and other investment assets.

These assets are accounted for, along with all liabilities, such as accounts payable, promissory notes and bonds, current and deferred taxes, and services that have been paid for but not provided. In accounting terms, a company's assets have to equal the liabilities, plus the shareholders' equity. The shareholders equity includes what the owners or investors have put into the business, plus the retained value from their investments. They can choose to issue those retained earnings as dividends, keep them for themselves, or put the dividends back into the business.

Managing the balance sheet and the free cash flow is an important determination of a company's financial health, at any given moment in time.

Getting a Return on Investment and Capital – if I have an extra thousand dollars that I want to grow, I have a number of options available to me. I can put the money in the bank and get compounded interest; I can invest in stocks and hope they result in a healthy dividend; I can buy property and hope it increases in value; or I can develop the property and hope that raises the value of the investment even further. Businesses have to make these same decisions every day: where to invest to get the greatest return on their capital.

Sometimes a company may close down a plant because it is not getting the best return, when compared with other plants. Sometimes the plant being closed is the most efficiently run; but it is too far from markets or raw materials, or its technology is outdated, so its returns are lower than expected. Recently, I became aware of an oil company that had closed one of its best operating refineries because other refineries could handle the slack and get a better return than the one that was closed. Try explaining that to employees who know they are the best in operational excellence, but work at an inferior asset for returns on investment for their company.

Creating Wealth – Some believe the only real measure of the worth of an enterprise is TRS, or Total Return to Shareholder. This basically means that a company is creating more value than the costs of operation and the cost of capital. To simplify a complex calculation, TRS is a combination of the earnings from operations and the stock growth compounded over time. So if the cost of capital on average is 8 percent and the growth of the company's value is 6 percent, I'm losing an average of 2 percent a year. Many CEOs don't survive more than three to five years because they have destroyed more capital than the wealth that they have created. It is easy to get tricked in thinking a company is doing well, but if its principles are not creating wealth, they are destroying it.

Accounting and Controls – If an organization is to succeed, it must employ effective processes of budgeting and managing daily transactions, including accounts payable (getting money the company owes out the door) and accounts receivable (getting cash that is owed in the door). Each requires the effective accounting of how money is spent, categorized, and reported for the annual report, balance sheets, income statements, etc., as well as how it is reported to the SEC and other government entities. Accounting must also ensure that the controls are in place to ensure that funds are being spent by the right people, with the right authority (Delegation of Authority), and not being mismanaged. This also requires conducting internal audits and cooperating with independent accounting firms conducting external audits.

Making Good Commercial Decisions – Companies and leaders have almost countless decisions to make to ensure that the best decisions are made for the commercial interests of the enterprise. Do I outsource a capability or insource it? Which will be the best financial decision. Do I rent or purchase and depreciate a piece of equipment? What are the negotiated contracts with vendors and the contractual terms with business partners? Because most technically trained employees are not savvy in making commercial and financial decisions, it is best to have specialists assist them. The specialists can then help conduct the financial analysis to provide options for the best commercial terms and choices that may otherwise be made soley on a technical basis.

Summary: This section is not intended to provide more than a brief overview of the financial and commercial interests that need to be on the radar screen of all leaders and, ideally, with all employees. When employees understand the commercial basis for decisions, they can be better engaged as true partners in the process. Leaders, likewise, need to develop a strong financial and commercial understanding to help them make better decisions.

With an understanding of the technical/capability foundation of an organization's overall value proposition and business basis, and with deeper understanding of the financial and commercial ramifications for a successful enterprise, the foundation to success is defined. The performance of that foundation is a function of the organization performance strategies that include: Strategy and Business Model, Leadership, Organization and Operating Model, Human Capital, High Performance Culture, Governance and Management Systems, and Organization Transformation. Each of these topics is covered in separate white papers.

Strategy and the Business Model

Strategic planning is a relatively new business process (less than 60 years old as a discipline), although it has been used in military encounters for centuries. The tools and methodologies for strategy have evolved considerably over the last 40 years. In the early 20th century, the business world was a much simpler place. Companies established plans in a stable environment, and all most had to do was choose their approach to exploit a market based on their product slate. As the business landscape began to diversify, however, strategy began to focus beyond product areas to the portfolio of businesses, often referred to as **portfolio management**. Individual businesses could then be classified as growth, cash cows, stars, or dogs, using the Boston Square with a portfolio strategy of how to manage them.

As managers found that the future was becoming less predictable, **scenario planning** became a popular tool to size up various future business situations and environments and how to respond to each scenario. Of course, if the most likely future scenario was not known, it was difficult to know what decisions needed to be made in the short term to be prepared for the right scenario long term. To compensate for this level of uncertainty and to be able to respond to a range of options, strategic planning evolved into setting a **strategic intent.** That way a company could be more agile by setting a direction, much like a compass, rather than having a detailed roadmap that left it too rigid to adapt to the unknown.

Large, multi-national companies that began to dominate their markets in the 1960s, like the U.S. auto companies, began to focus their strategic approach more on **internal operations** rather than customer requirements. By the 1970:s They were attempting to increase their cash flow by optimizing their internal operations. These companies were staffed with financial analysts charged with optimizing internal efficiencies. That worked well for a while until Japanese companies established their market strategies around customers or quality management. They were able to deliver a higher quality product at a lower cost. Detroit's market share began a downward spiral that came close to the Big 3's demise, until they matched the Japanese approach. Their strategies were then adapted to likewise focus on customer satisfaction and loyalty.

As large corporations expanded into multiple business areas called **Strategic Business Units**, the role of corporate strategy diminished. However, at the business unit level, strategy development became more critical. Business units have real products, customers, and markets that can be differentiated. To create one strategy that fits all would be counterproductive if not fatal to an organization's success. In fact, some strategists, including Richard Koch (*The Financial Times Guide to Strategy*), believe that a corporate strategy group can become dysfunctional to business unit strategies if overdone. The role for corporate strategy is to manage the portfolio of companies and to leverage the use of common resources. Corporate and business unit strategy development units are usually one in the same for smaller companies.

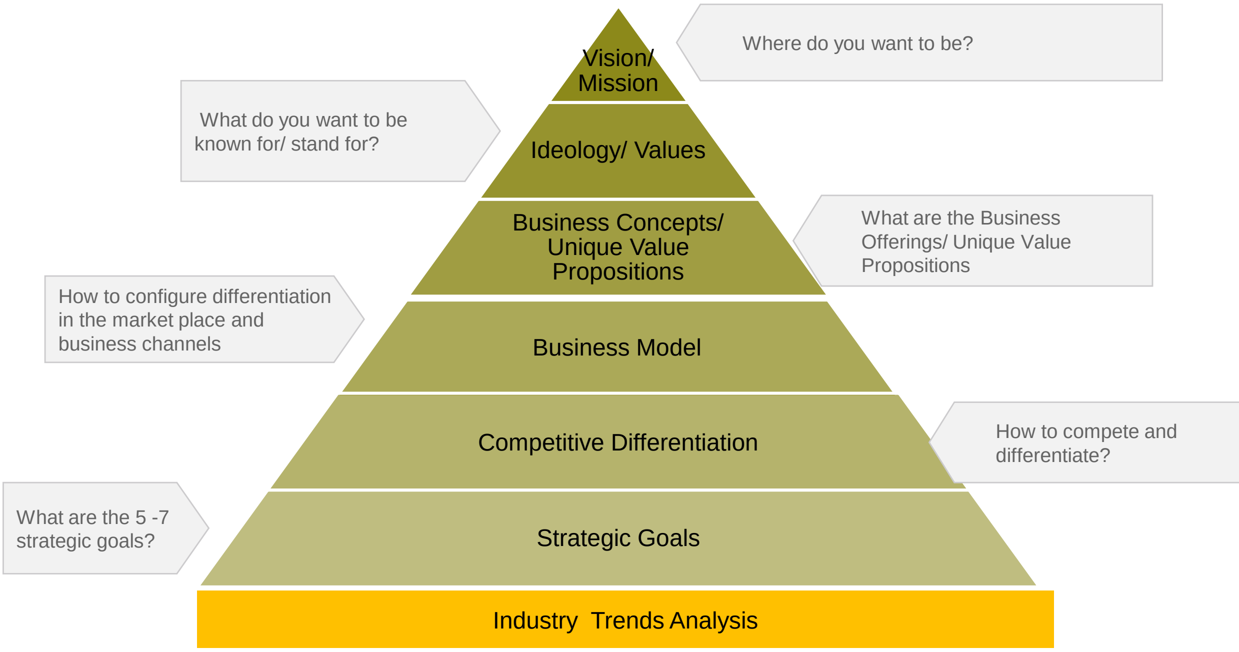
Whether at the corporate level or at the business unit level, strategies can take both an external and an internal focus. The external focus emphasizes the business environment and how to respond and exploit external markets and opportunities and is often referred to as the Corporate Strategy. Internal strategy development focuses on how to effectively exploit the operational capability. This can lead to programs on six-sigma, or quality management. It is usually referred to as the Operating Strategy. Both are important in the strategy development process. Overall, there is a nesting of corporate level strategy, down to a business unit strategy, down to a division strategy, etc. The strategy at a lower level may look more tactical from a higher-level perspective. One of the key differentiators is the time span. A corporate level strategy may be looking out 10 – 15 years, whereas a business unit strategy may be out 5 – 10 years, and a division strategy 2 – 5 years.

Michael Porter of Harvard Business School (*Competitive Advantage: Creating and Sustaining Superior Performance*), who is probably the most prolific writer on strategy, developed a model to look at strategy planning in holistic terms, including: 1) competitors in the industry, 2) customers, 3) suppliers, 4) threats from new entrants, and 5) threats from possible substitutes. His insight added a broader view on what elements to include in the strategic planning process. By conducting industry and competitor analysis, companies can begin to identify their approach for creating strategic advantage by clarifying how they compete throughout the value chain. His primary basis of strategy is to create value, not to be the best as the primary focus of success.

Gary Hamel and C.K. Prahalad (*Competing for the Future*) found that strategy could best be exploited by defining a company's core competencies. Those competencies could then be exploited across a variety of businesses, such as Canon's core competency of optic lenses that it has leveraged as cameras, copiers, ophthalmic testing equipment, camcorders, and more. Those are old technologies now, but the concept is well demonstrated,.

As an organization engages in a strategic analysis approach that fits its needs and situation, it can develop a meaningful and coherent strategy. The outcomes of such a process can be documented with the insight and analysis that led to the strategy, which may be simplified for a broader audience. However, there is a danger that by not communicating the rationale behind the short statements and phrases typically used in communication, the richness of the thinking and meaning behind the strategy is lost. Individuals then don't understand what the implications of the strategy are for their specific role and what specific actions they should take.

Although the level of depth and breadth in the strategy development process may vary widely, depending on the situation and the people involved, the most basic elements traditionally included are identified in this diagram.



Vision/ Mission: this provides the overall compass and general direction of what an organization aspires to become and the business it chooses to compete

Ideology/Values: this is the core definition of what an organization stands for and is committed to in the way it behaves and the integrity it exemplifies

Business Concept/Unique Value Propositions: the business concept defines the basis for the business the organization is in, the offerings it provides, and how it will generally operate, as well as the value that is proposed to deliver to its customers

Business Model: this gets at the linkage of inputs, to transforming raw materials into products and services, to the output to not only create value, but to make money for the shareholder. This is based on unique business positioning and channels to the market and the parts of the value chain the organization chooses to participate in

Competitive Differentiation: This takes the value chain selected in the business model and identifies which approaches will be used to create competitive differentiation, where more value can be created by selecting an approach different from competitors

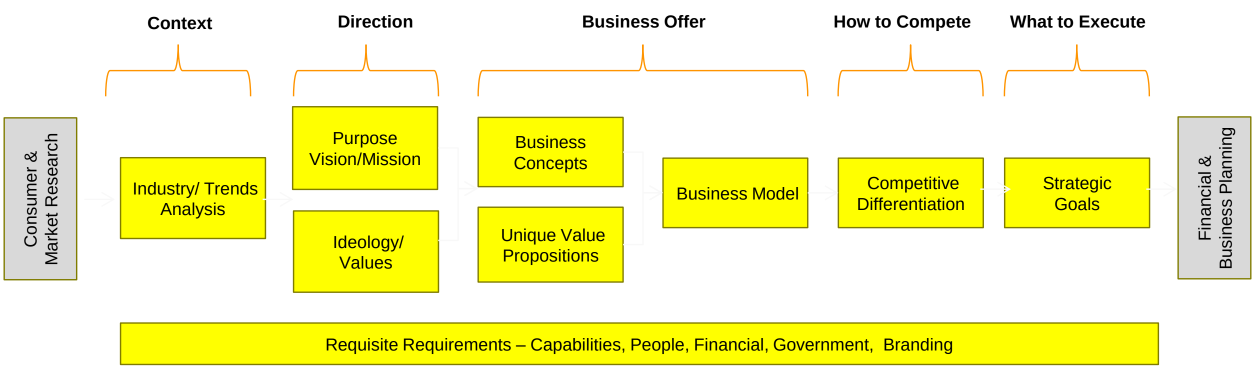
Strategic Goals: the strategic goals provide the final overall focus for execution. Although there are many thing that need to be done operationally, the goals tie the management focus together among 5 - 7 key focus areas or strategic goals. These often relate to areas such as finance, growth, operational efficiency, customer focus, organization capability, etc.

Industry Trends Analysis: all of the above has to be determined in the context of the business environment. This can be defined by conducting a trend analysis of such areas as: political, economic, social, technology, legal, environmental, customers, and competitors.

There are a variety of ways to develop a strategy. What is most important is to use an **integrative approach** that involves those individuals who will be most responsible for ensuring that the strategy is implemented. Past approaches of assigning strategy development to a centralized headquarters function typically did not lead to effective strategy development and implementation. Likewise, turning the development of strategy exclusively over to outside resources can be just as ineffective for many of the same reasons. However, using external resources to facilitate the process can be very valuable. In addition to managing the process, they can provide an external perspective, challenge management assumptions, and provide information on best practices. In some cases it is also useful to have a third party conduct a data and market analysis as input to the strategic planning process.

The final documentation of the strategy is not as important as the process, thinking, and meaning behind what is produced. The process of developing a shared point of view, vision, and common understanding with agreements for the investment requirements in moving forward is what is critical. If successful, the types of decisions and responsibilities for the execution of the strategy that are required will be well understood. Strategy is not just about the future; it is really about decisions and actions that need to be made today to realize the company's short and long opportunities.

The following Strategy Roadmap outlines the steps to developing a strategy and will be illustrated using a real company example that we will call RDC (Real Estate Development Company):



Industry Trends and Analysis (Providing the Context):

This begins by conducting an analysis of the **current business situation** and of future trends, issues and the most likely business environment. This would include understanding political and government issues, what is the economic environment like, what are the social issues to be aware of, what changes are coming about through technology, are the legal or legislative trends related to your business and the key issues related to the physical environment, pollution controls, and movements for a green footprint. In addition, it is critical to understand the mix of customers and competitors, and what is trending among them. This is a process of identifying the trends to be able to respond to potential issues that may create a moving target as the organization plans its strategy in this context. It also provides an opportunity from this external assessment to identify issues and opportunities to capitalize on. These ideas need to be prioritized in terms of opportunities and risk in deciding where to position the strategy.

These are the areas that were used in a trends analysis for a real estate development company:

Industry Focus Areas:
- Fitness Centers
- Lifestyle communities
- Hotels
- Real Estate Development

Financial:
- Available Capital
- Equity Investment Partners
- International Investors

Government:
- Legislation
- Government Incentives
- Political Support
- Restrictions/Regulations

Human Resources:
- Work Force availability
- Competitive Pay
- Expats/Visas
- Social trends

Competitors:
- Threats of substitutes
- New Entrants
- Key Competitors
- Mistakes made to learn from
- Success made to learn from

Consumers:
- Lifestyle buying trends
- Disposable cash
- Segmented Consumers
- Consumer requirements
- Consumer motivations – what job do they want filled

Technology:
- Emerging new equipment
- Emerging new concepts
- New Innovations in Services

Geography:
- New community developments
- New living concepts
- Shifting lifestyle populations

Purpose/Vision/Mission (Direction):

Some organizations have developed very elaborate statements of vision and purpose that can be lengthy documents describing their long-term view. Others have created a summary of the segmented market analysis and the strategies set to exploit those markets. The other extreme is to develop short statements and phrases that are easy to recall and that communicate a clear direction, often using language or symbolism that create strong, inspiring, visual images.

The Purpose statement defines why a company exists. Not all companies have purpose statements, but those that do typically have a very short statement that is close to being a slogan like BMW's advertisement of what they do is create "The Ultimate Driving Machine."

The Vision statement is the aspiration of what the organization would like to become, its dream of the future looking out 15 years into the horizon. This can be expressed in terms of dominance, scale, or position in a certain market relating to being the best. An oil company defined its vision as being the "leading competitor in the Global Upstream Oil and Gas business."

The third statement is the mission statement. It defines what business the company is in, what markets and geographies it serves, as well as what it is not in. A legal business may only want to focus on corporate issues in certain industries, for example, and only in certain states or countries.

Here is an example of all three statements for a real estate development company:

Purpose:
Progressing the human lifestyle experience

The simplicity of this statement provides the clear underlying reason for why this company exists, and it will be a common and recurring theme and test for all work that its people engage in. It is a heartfelt expression of how the company chooses to make a difference in the lives of customers by improving their very existence with an elevated lifestyle experience. People's lives are a journey with many ups and downs, but the overall life experience can be improved by progressing the opportunity to live better with improved health, recreational, and general living experience amenities.

Vision:
To become a billion dollar company that is globally recognized for leadership, technology, and innovation in bringing edge and style to iconic development projects that transforms the human experience

The vision is the long-term goal for what this company wants to achieve, its aspiration for what it strives to become and do. It both states the ultimate end point of being a billion dollar company, but to also achieve status globally for what it does and is through its leadership, application of technology, and innovation in the ultimate pursuit of not just doing routine projects and developments, but pursuing those that have edge and style and can be seen as iconic. The overall vision ultimately is to transform the human experience.

Mission:
We are in the business of elevating lifestyle through projects in real estate development, healthcare, education, facilities management, and all forms of hospitability and leisure. We will focus on key cities in the Middle East where we find opportunities to further our purpose, vision, and mission for all nationalities and ages.

The mission is a more near-term description of what business the company is in, what geographic areas the company will pursue those businesses in, and the overall markets or target consumer base. This is all done in pursuit of the purpose and vision of elevating the human lifestyle experience. Although the mission targets several potential project locations, its overall theme is the real-estate development of projects in the Middle East. This includes not only the front end of real-estate development, but also providing the backend services of maintenance, cleaning, and other related services.

Organization Performance Strategies

Ideology/Values (Direction):

Companies represent a brand and a market perception that provides a sustainable, reputable presence. It is what they stand for, those traits that are none negotiable for which they can be depended upon and trusted. These are traits that relate to integrity, excellence, customers, and employees, as well as the company's footprint in society. Johnson and Johnson, during the Tylenol tampering case in 1982 immediately took all of its Tylenol products off store shelves. That was their commitment to the public, that if there was any chance of their products being harmful to anyone, even at the hands of a criminal, they would not take that risk, but would pay the cost of losing significant profits to maintain this highly esteemed value – of providing safe, reliable, quality products. Tylenol rebounded with greater public respect following this incident. These values can also be distinctive and unique in terms of what the consumer can expect to receive and experience from them. These values also relate to the employee themselves, how they are treated and are expected to perform.

Here is an example of the critical values identified by one company:

Customer Focused:
Providing superior customer service and attention to what the customer needs and delivering superior customer satisfaction.

Exemplary Teams:
Hiring the right people with the capabilities to deliver the strategy and with the behavior and mindset to be a team player that works towards common goals with trust, openness, cooperation, and commitment, coupled with the courage to positively confront issues and hold each other accountable for delivering results.

Edgy Innovations:
This value recognizes the artistic side in providing products and services with a leading-edge style that adds artistic beauty, is research-based, fills a unique niche, and uses leading technology.

Excellent Performance:
This value recognizes that the work processes, systems, and people needed to provide customers with consistent high-level results, performance, and, most of all, experiences are predictable, efficient, and effective by being well organized, managing quality that can be measured through key performance indicators, and a balanced scorecard approach.

Devoted Associates
This value identifies the need for fully committed employees who will execute the strategies with excellence and who are resilient and perseverant in achieving outstanding results.

Business Concepts (Business Offer):

It is great to decide to be in the transportation business, but that concept is very broad and needs to be narrowed down to the areas that an organization chooses to focus on. This process can begin by first identifying all the potential versions of that business that could be of interest. This usually requires early analysis to decide which business concepts options are most attractive: car rental, trains, airlines, etc. An analysis of each of these business concepts can be broken down into many sub concepts.

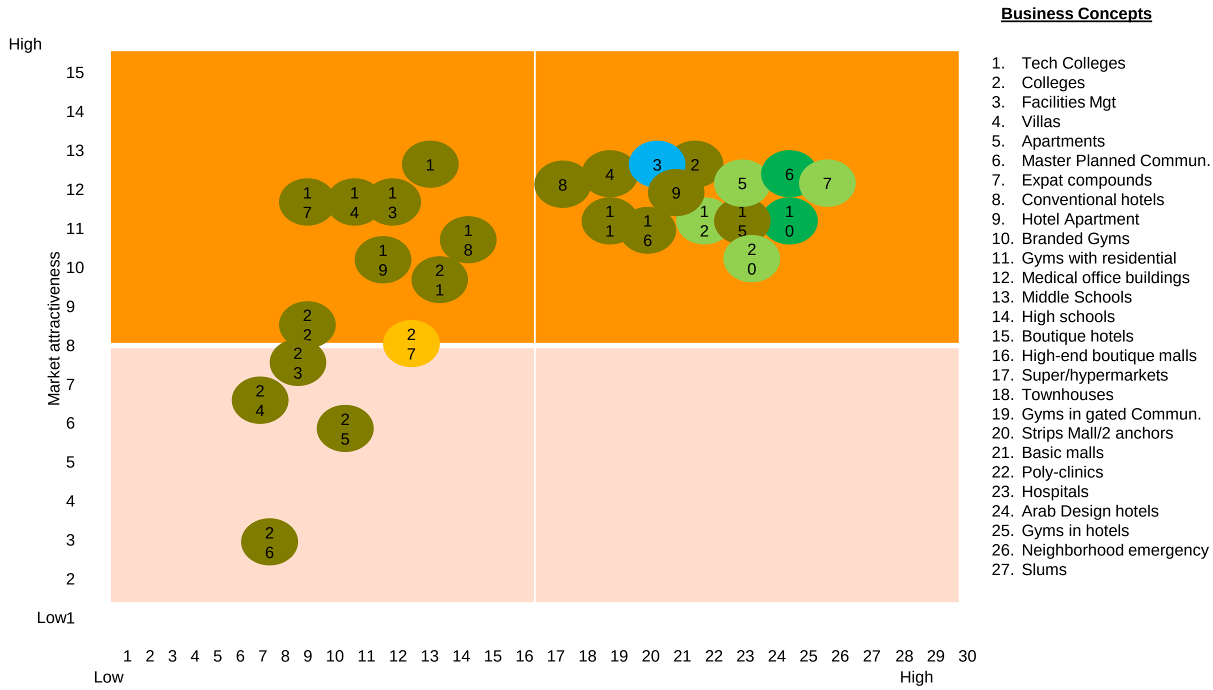
A real estate development company recognized that there were many opportunities in which they could invest, so after developing a large number of options, each was analyzed with market research and then internal research on its own capabilities. Only then was the company finally able to land on high priority business opportunities.

This is the example of the business concept analysis conducted for RDC Company:

A brainstorm with the client identified up to 27 different business concepts. Each was then assessed to determine the top priority opportunities to pursue, using seven selection criteria:

1) Consumer interest
2) Profitability trends
3) Fit with Purpose, Vision, Mission, and Values
4) Growth of industry
5) Competitive saturation for projected markets
6) Niche opportunities
7) Company capabilities or access to capabilities

This was used to plot market attractiveness along with the company's leaders preferences on the following grid.



From this list the top 10 business concepts were selected. They were used as a basis to develop a more detailed analysis of the business opportunities by developing a Unique Value Proposition and Business Model for each to narrow the list down to the top 5, which takes us to the next step.

Unique Value Proposition (Business Offer):

The value proposition to be balanced needs to be developed for four key stakeholders. First, it needs to deliver clear value to the customer; otherwise, the company won't be in business. Second, it needs to provide returns to the shareholder, or the business won't be funded. Third, it needs to attract, motivate, and align quality employees to deliver value to the customer in a way that makes money for the shareholder. And, finally, it needs to provide value to the community and society within which a business operates to get the local support and as the pipeline for customers and employees.

The following is an example of the value propositions that were developed for a retail station gas business:

Customer:

1) Price – competitive in main grade
2) Location
    - Strategically placed network
    - Decent plots
    - Image
3) Product Portfolio – main grade
4) Extra offers

- Decent shops
- Quick and friendly service

5) Brand Perception
- Clean and reliable
- Safe

Shareholder:

- Profitability & Return on Capital
- Growth
- Cash Flow (Healthy)
- Balanced Risk Profile, Enhanced shareholder Portfolio
- High Caliber Human Capital
- Safe & Responsible OPS
- High Caliber Technical Expertise
- Reputation

Employee:

1. Company's culture
    - Open communication
    - Participation in decision making
    - Ethics/values
    - Equal opportunities
    - Team work
    - Continuous improvement
    - Meritocracy
    - Competitive environment

2. Work Environment
- Premises
- Safety
- Healthy Environment

Personal Development
- Career Prospects
- Training & Competency Development
- State-of-the-art HR Systems

4. Compensation & Rewards
- Competitive Compensation

5. Job Security
- Job and Salary Security – not civil servant

6. Job Status/Recognition
- Proud to be part of the Company

7. Employer Credibility

Society

1) Expand safety training and defensive driving training to local communities
2) Enhance social profile: provide scholarships to top graduates
3) Support state initiatives against smuggling, exercise pressure on lobbies, and increase public awareness
4) Cultural initiatives in certain areas where company need to be more competitive and increase profile
5) Promote environmental sustainability by lowering retail site's energy footprint
6) Donations, e.g., heating fuel for schools

These examples are a result of leaders working in sub-teams. Although all of these areas can be important, it is useful to narrow them down to the critical few by being clear on what the key strategic themes are to drive the selection.

In this case four strategic themes could be:

- Cost Management
- Grow in Black Spot Areas
- Customer Preferences
- Achieve Operational Excellence

Business Model (Business Offer):

For years, the short business school description for the Business Model has been, how you make money. That view is fine, to a point, but the development of how that really happens takes the notion to a whole new level. There are several key steps to achieve this:

- Clarifying the key assumptions
- Diagraming the flow between supply (inputs), processing (value creation), and demand (fulfilling needs)
- Outlining the critical success factors

The assumptions are important to determine the baseline conditions for the business model. Will the economy be growing, will families want to move up in their housing, will capital be available for investments, etc.? The trends identified early on is an important tool to help determine the assumptions that will guide the company as it moves forward.

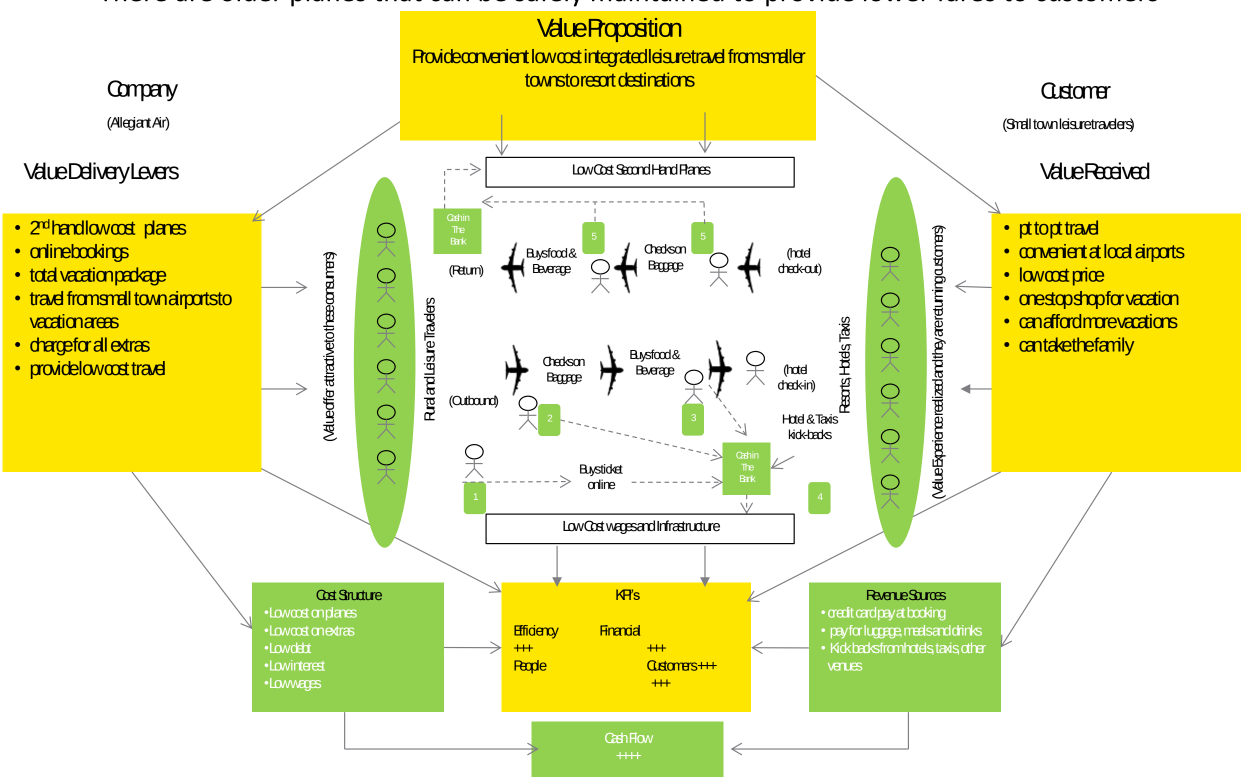
Diagraming the flow between supply, processing value, and demand is an illustrative way of modeling the factors that have to come together to create value. This is developed for each business concept that a company is considering entering into so that it can understand the dynamics of how value is created.

Finally, there are usually requisite actions or conditions that need to be in place for the business model to work. These are called critical success factors. Without them, the ability to execute the business model would be at risk.

The following illustrates a business model from the airlines industry of a newer, but high-growth company that has achieved significant success:

Allegiance Assumptions (based on observations):

- There is a market for airline travel from less traveled airports
- People in those locations are interested in low-fare travel
- Customers want access to vacation locations
- One-stop arrangements for travel, including hotel and car service, is preferred
- There are vacation travel companies that want to partner to attract more customers
- There are older planes that can be safely maintained to provide lower fares to customers



Critical Success Factors (Based on Observations):

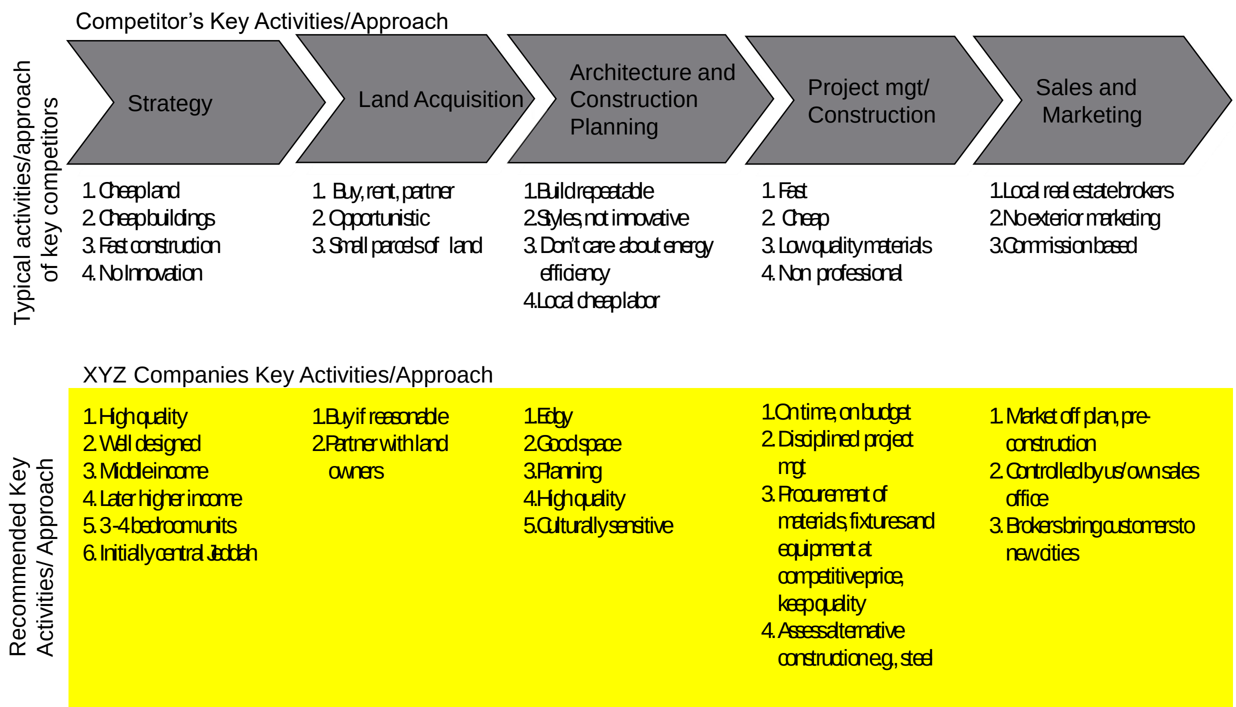
- Securing licensing at operational airports
- Strong maintenance capabilities for planes
- Effective customer service and communication with customers
- Marketing and branding value
- Culture of low cost and passenger friendly service
- Getting other service providers to participate in bundled offerings

Competitive Differentiation:

This is conducted by analyzing the competitive strengths of competitors across the value chain and selecting a differentiated approach for your own organization. This differentiation gets at the heart of strategy because it defines the approach to compete. This process was developed by Michael Porter at Harvard, and it gets at one of the primary bases of strategy, which is competitive differentiation.

This requires first identifying the value chain, which is usually standard for a given industry. For example the value chain for the Upstream in the oil industry is Exploration, Appraisal, Development and Production.

Within in each segment of the value chain, the company needs to evaluate how its key competitors choose to compete. Then it identifies how it is currently competing and how it would like to compete. The following illustrates the value chain competitive analysis of one segment of a real estate business for luxury apartments.



Once the sources of competitive advantage are well defined, the organization can define where it will primarily focus its time and energies to create success.

Strategic Goals:

The final step in articulating the strategy is developing the primary focus for the leaders to pursue in order to ensure strategic success. Operationally, there are thousands of details to work out, but at the strategic level, it is best to keep the focus to five to seven strategic goals. These can be determined by the key issues that the company needs to focus on, or by following the four key areas of the Kaplan Norton Balanced Scorecard for Finance, People, Operations, and Customers, along with Growth. It is best if these goals are measureable. From them flow the key operational objectives that need to be set and aligned within each function, with a line of sight from top to bottom.

This is an example of the strategic goals developed for a real estate development company.

<u>Growth</u> – Manage a portfolio of 40 projects over the next five years, on time and within budget

The company's growth is dependent on its ability to successfully deliver projects. Projects need to be managed according to international project management standards. The delivery of projects within budget and on time will be important. Being able to deliver multiple projects simultaneously for a goal of 40 developments would be great success.

<u>Finance</u> – Develop a positive cash flow with a return on investments of 20% per annum

Achieving a positive cash position will be key for not only operating its ongoing business, but also to have cash and lines of credit needed to raise additional capital for new projects. A return of 20 percent on average is a high goal, but is highly possible considering that the return in some of this company's selected key sectors has been as high as 40 percent. This return would also indicate the ability of the company to be successful in the full value chain of its businesses and to achieve positive returns.

<u>Customer Satisfaction</u>- Develop a level of customer satisfaction recognized in the top 10 percent for edge, lifestyle, and service

Word-of-mouth advertising from satisfied customers to potential customers is the best advertising a company can generate. The company's future success will be built on the reputation it creates from customers' experience. Therefore, it is important to be a recognized leader (top 10 percent in satisfaction) in the differentiated ways to be known - - for its edge and unique products and services, the focus on lifestyle development provided to customers, and the level of service the customers receive.

<u>Operational Excellence</u> – set standards of leading practice and efficient processes that minimize firefighting

It is important that those projects are turned into operational businesses (where the company is the operator) that are run with excellence. This will require the company to adopt leading practices so it can deliver quality with efficiency. Its leaders have found challenges in the past with ongoing firefighting due to not having established highly effective processes. This leads to problems that have to be solved continually, resulting in inordinate amounts of time spent in a firefighting mode.

<u>Fast, Nimble, Flexible Organization</u> – Develop a fast, nimble, learning organization that is agile in capitalizing on opportunities

The marketplace moves very quickly with new innovations and competitors. New opportunities emerge that require an organization to be quick in being able to capture and capitalize on these opportunities. Also, as the marketplace changes, the organization needs to adapt to these changing competitive pressures. This goal is set to ensure the development and operation of an organization that is not only responsive to new opportunities, but learns from its past to improve and change for the future.

Talent Capital – Attract, align, and develop a highly capable and committed pool of resources

It is the people and the resources employed by a company that determine whether or not its strategies, goals, and vision are realized. Achieving this goal requires the hiring of top talent and then leveraging that talent. This may involve a combination of full-time employees, part-time contractors, or periodic consultants, along with seasoned individuals from partner organizations. These personnel resources need to be found, aligned, and developed to deliver the level of capability required.

Strong Strategic Partners – Develop a committed group of partners to leverage investments, capabilities, and reach

The strategy includes leveraging capital, capabilities, and influence through others. This means that key strategic partnerships will need to be sought out and developed as an integral part of the overall plan. These partners need to be jointly committed to the company and common projects. In addition, the role that each partner plays in leveraging value needs to be clear.

By following the above steps, the organizational will develop a well-defined and executable strategy. The planning tools and templates will vary based on industry specific needs. A consumer products organization will need to focus more on the behavior of markets and segmentation. A holding company will need to focus more on acquisitions/divestitures and leveraging common or shared resources. A government or monopolistic type company will need to focus on customer needs and managing costs, while a non-profit organization will have to focus on leveraging funds across key programs and maintaining close sponsor relations.

The key to successful strategy development is implementation. By aligning the organization to the business strategy and developing an effective team to deliver the strategy, all departments and functions can operate as an integrated group to benefit employees, shareholders, and customers through exceptional performance.

The big question now is does the organization have the capability to deliver the strategy? The challenges and capability gaps for delivering the strategy now need to be identified as the next step.

Capability Gaps

The next step is for leaders to brainstorm and analyze the challenges and capability gaps. Without the development of new capabilities, it will not be possible for the strategy to be implemented. These capabilities are then framed as actionable projects called strategic initiatives. Below is an example framing of one of those strategic initiatives. In this case, one of the gaps is the ability to conduct feasibility assessments of which projects to choose and manage in its business.

Capability category	Project Selection/Portfolio Management
Initiative name/objective	Feasibility Studies/Business Case — develop a company approach for conducting feasibility studies and developing a business case as part of the Stage Gate Development process
Initiative scope (Key steps)	▪ Review Stage Gate Approach and timing of this step ▪ Develop an outline of conducting a feasibility study/business case ▪ Develop processes and procedures ▪ Develop tools, templates, reports ▪ Pilot test with key leaders, refine and implement ▪ Include as key step in stage gate development process
Initiative owner	COO
Estimated duration	2–3 weeks
Resources	External consultant plus analyst/Business Development Lead
Estimated cost	
Interdependency	Stage Gate Development Process
Performance measures	% processes in place, % of time feasibility studies and a business case is developed

Key Risks and Mitigation Strategies

The last step is managing risks. All plans have risks and key issues that can get in the way of not only implementing the strategy, but actually stopping it in its tracks. It is important to identify these risks and to describe what they are to be clearly understand by the leaders. Then mitigating actions need to be identified that can be taken to minimize the risk or to be able to confront it if it occurs.

Below is an example of the risk management summary plan:

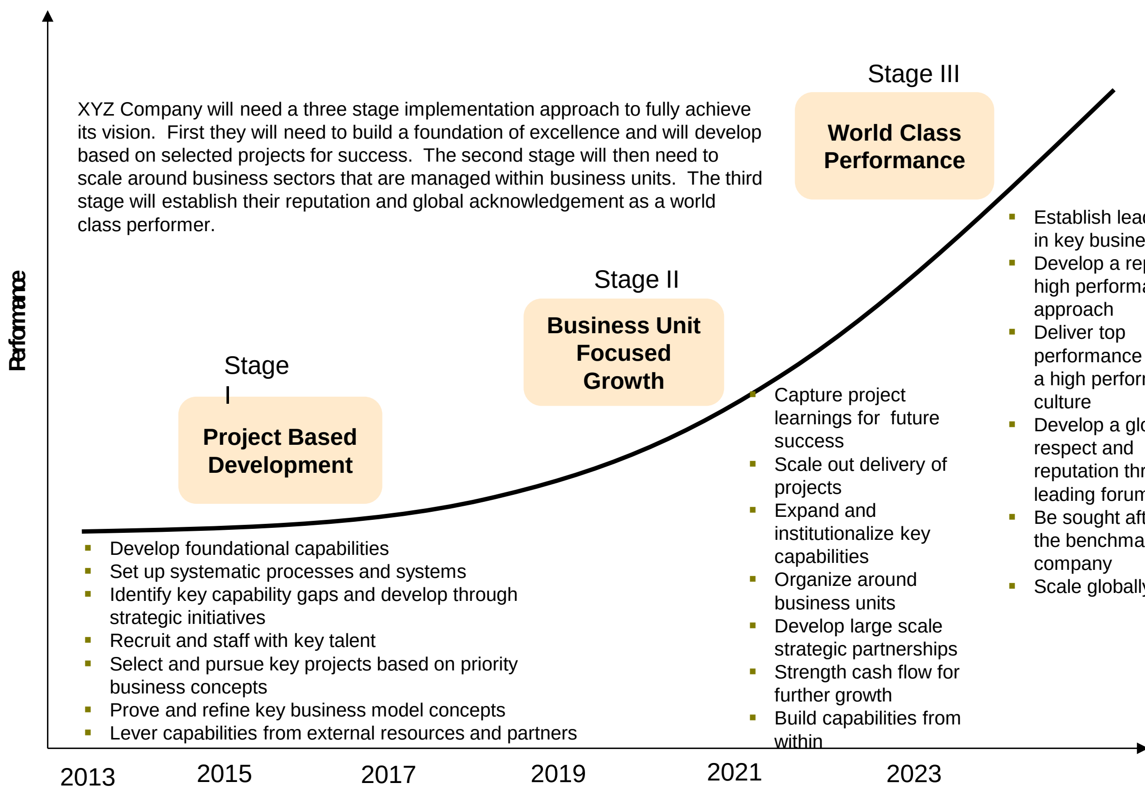
Key risks	Description	Mitigating actions
Raising capitals	Inability to raise capital for projects and to cover expenses in initial stages.	Establish credibility through payment and financing schedules and by the delivery of successful and profitable projects.
Cash flow	Lack the cash flow to cover expenses and have healthy balance sheet to attract other investors.	Identify projects early on with a quick turn around from investment to establishing strong cash flow.
Operational ineffectiveness	Poor performance retards growth in customer based and takes management attention away from growth agenda.	Identify an organization effectiveness lead to work with all organizations in establishing and implementing core processes.
Leveraging talent	Inability to find, attract and retail top talent and partners to provide the capabilities for success.	Build organization around key capability leads and leverage world class hands on talent for each business sector.
Organization alignment	Too many projects and reacting to the latest fad which continually changes priorities and directions.	Develop a business plan that is clearly communicated with strategic goals aligned and cascaded down to each employee.
Capability gaps not closed	Projects and businesses are developed without the basic capabilities to deliver them let along operate them.	Identify and analyze each capability gap and develop strategic initiative plans to close those gaps on a priority basis.
Competitors	New competitor emerge and able to move quickly and change the competitive landscape.	Keep a watch on who the key competitors are, what they are doing, and move strategy quickly forward to not loose competitive positioning.
Slow to implement	The cycle time to implement and scale are too slow to keep up with demand and competitors.	Set up progressive implementation that recognizes speed with capability and ensures capabilities are in place.
Project management	Ineffective project management gets costs spiraling out of control and delivery dates delayed.	Set up an office of program management to establish project management standards and monitor the implementation of all projects.
Lack leadership	The company lacks the leaders to chart the course for the future while managing and operating the business short term for excellence.	Select and develop key leaders based on a specific leadership model that sets the requirements for competent new city leaders.

Organization Performance Strategies

Phases to Strategy Implementation:

The strategy usually needs to be implemented in stages. This is a development approach to strategy execution, which recognizes that until the organization matures to certain levels, it can't proceed to the next level. Below is an example of a three-stage strategy execution approach.

Three Stage Approach



In summary, a successful strategy and business model development and implementation approach require an ability to maintain laser-like focus on the organization's strategy and business model. Often, problems begins at the top and extend downward through the fulfillment of customer requirements.

This approach needs to set the direction for where an organization is headed. Strategy often begins with a clear vision and an aspiration for the future, and is then coupled with a more practical definition of what business the organization is in, which we refer to as the mission. The more precise definition of what an organization focuses its resources on to achieve outcomes is defined by the strategic goals. Typically, the approach a company uses to create a competitive advantage and to develop, distribute, market, and monetize its products is the business model. Strategy starts broad and is then broken down into finer elements until the exact approach used to achieve value is defined.

Some organizations define their vision and mission statements as their strategy, or they have hundreds of objectives that they see as their strategy. Both extremes do not constitute a strategy. A strategy needs to be clearly focused on a few priorities that drive differentiated performance with clarity of purpose. As Peter Drucker once stated, “Strategy is those things you do today that determine your tomorrows.” Michael Porter emphasizes that strategy is not about being the best. I worked with an oil company once that touted that it was the best driller in the industry. Unfortunately, after all its drilling, it didn’t find any oil. Porter instead indicates that strategy explains how an organization, when faced with competition, will achieve superior performance. My take is that choosing where to invest time, capital, and resources, while considering competitive and business environment forces, will create superior value for the stakeholders – customers, shareholders, employees, and the community.

Strategy and Business Model Issues and Actions:

Key Issues	Actions
• Strategy not clearly articulated • No clear, commonly-understood goals • No central document for the operating approach • Lack of mechanisms for communication	• Conduct a leadership workshop to articulate strategy • Analyze the value chain and develop the optimum business model • Cascade goals as part of a performance meeting system • Develop a company vision and operating model document • Develop a communication strategy

About the Author

After earning a Master's degree in Organizational Communications and Business at Brigham Young University and pursuing doctoral studies at Rutgers, Curt J. Howes worked for eighteen years at Exxon, where his responsibilities included leadership development and advanced management education. He then went to Accenture for eight years and was Associate Partner for the Organization Change Strategy practice in the Resources Sector.

He is currently the founder and President of Organization Performance Strategies. Curt has consulted with numerous international organizations, including Cobalt International Energy (Houston, Texas), Mecca Municipality (Saudi Arabia), Orascom (Egypt), Protection of Women and Children (Saudi Arabia), and the Royal Commission for Jubail and Yanbu (Saudi Arabia), Tosco (Phoenix, Arizona), BP Angola (London & Angola), TNK-BP (Moscow) BG (Brisbane, Australia), Exxon affiliates (U.S.A.), TXU (Dallas, Texas), Aramco (Saudi Arabia), PDVSA (Venezuela), ADNOC (Abu Dhabi), Ministry of Water and Electricity (Saudi Arabia), to name a few.

In addition to his consulting practice, Curt serves on the Advisory Board of BYU's MBA OB/HR program and teaches case study classes for both BYU and Utah State University MBA Programs.

For additional information, contact:

Curt J. Howes
President
OP Strategies
5330 S. Cottonwood Lane,
Salt Lake City, Utah, 84117
Phone: 001 801 201 6259
Email: cjhowes@opstrategies.org
Webpage: www.opstrategies.org