Lessons For The CEO on Thinking Strategically

Aim before you fire

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TABLE OF CONTENTS

Strategy Doesn't Require the Wisdom of Solomon

Talking about strategy is like watching an ED commercial. No, I'm not talking about "Ed" the television show. I'm talking about the one with the two people sitting naked in bathtubs in the middle of nowhere — the one that comes on when you're watching TV with your kids/spouse/mother.

There's a saying that people pass around a lot like it came from King Solomon: "It's all about the execution." As if strategy doesn't matter. But, of course, it does. Executing brilliantly on the wrong strategy only makes you fail faster. As Sun Tzu said in "The Art of War," "Tactics without strategy is the noise before defeat."

So if strategy is so important, why do many CEOs run from the topic? Many believe that they should be magically endowed with the wisdom of Solomon when they accede to the big chair on mahogany row. It is frustrating and humbling to not have an answer to the most fundamental but difficult question in business.

Several years ago, two colleagues and I did a series of presentations to many senior HR professionals to enhance their business acumen around strategy, financial literacy and change management. During those sessions, I did a workshop on strategic thinking. After defining strategy, I asked how many people could clearly articulate their company's strategy. About 10 percent said they could. Coincidentally, I've given a similar workshop to numerous CEOs, and 80 percent said they could articulate it. Hmm … how is this possible?

Further, several CEOs I've had close relationships with tell me they couldn't articulate their strategy, though they wouldn't admit it outside the room.

Can you answer these questions?

- What integrated set of actions will allow you to create a sustainable advantage over your competitors?
- Why are you different from your competitors, and what evidence do you have?
- In three or four sentences, what's your strategy? Would your co-workers all answer the same?

Don't be the naked emperor, acting as though you know and everyone else knows where you're going when, in fact, no one does. If you're a CEO and cannot answer those questions confidently, I have two messages for you:

1. You're not alone. Don't be ashamed or feel foolish.
2. You can fix this problem (yes, it's a problem!) with some help.

King Solomon, by the way, was noted for his wisdom, but legend says his kingdom eventually broke apart for his sins. Don't let the same thing happen to your company. You don't need the wisdom of Solomon to craft strategy, but you must have a process and be humble and courageous!

Can you clearly articulate the integrated set of actions that you will use to create a sustainable advantage?

It's Not Above Your Pay Grade

I'm fortunate to be staying at the W Hotel in Hoboken, New Jersey, for a meeting as I write this. If you haven't recently been on this side of the Hudson River, it ain't the New Jersey from years ago! Looking at the Manhattan skyline from my window, I realize I've never had an opportunity to study it from this perspective any longer than an airplane takes on final approach into the Newark airport.

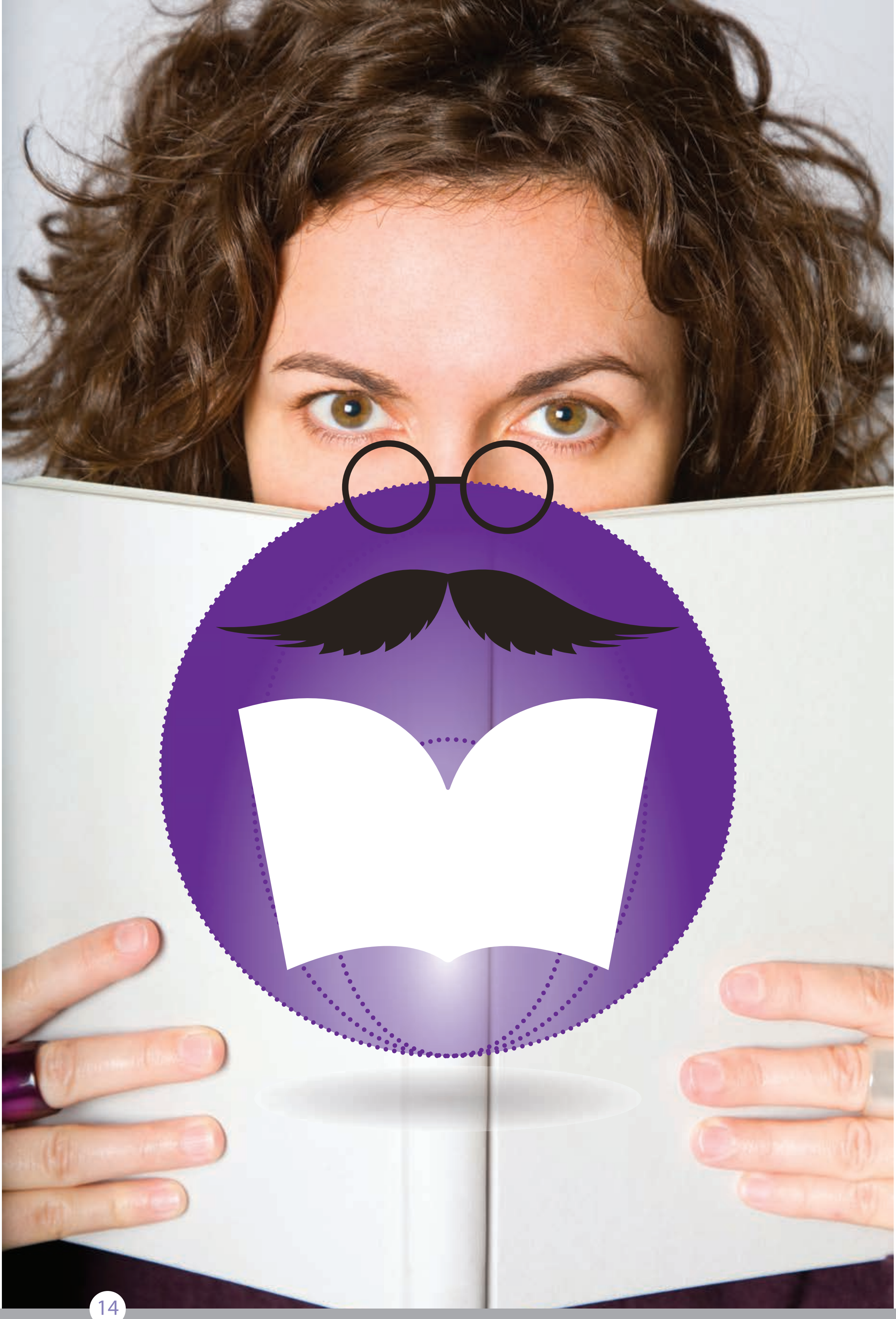
When you're amid something, it's hard to get a good look at it in total. Seeing Manhattan from Manhattan is the only way to experience the wonderful granularity of it, but a bird's-eye view from across the river gives you a different perspective.

When my son returned from Iraq several years ago, many people peppered him with questions, anxious to hear his street-level observations. His perspective as a Marine sergeant was insightful but not adequate to make a general's decisions. (He was smart enough to answer, "That's above my pay grade!" to the political questions people asked him.) Generalizing from a specific is never a good idea.

I recently spent time with members of a small business's management team. They knew the details of their business extremely well, things such as product knowledge, supply chain and end-user profiles. However, they were missing the view from across the river. They were so into details that they hadn't looked at their business from outside their bubble and the industry changes that were causing them problems. They assumed their challenges were all about the execution, and some were. However, their strategy was wrong for what the future entailed. They had a sergeant's perspective, not a general's. As we parted ways I thought, they'll either get a room with a view across the river to see the bigger picture, or they'll go back and redouble their efforts, doing the wrong things.

A well-worn axiom says you should work on your business rather than in it. If you own or manage a small or medium size business, you may be required to spend large amounts of time in the details of your business. However, if you don't step back and get a different view, you're in just as much danger as walking across the street while looking at your shoes.

What process do you have in place to make sure that you get a bird's eye view of your business?



A Compelling Plot

I'm a sucker for spy/crime/detective novels. The coolest thing is finding an author you love who has written a series of these. Many years ago, it was Robert Ludlum. In the past year, my favorite series have been by Michael Connelly (the Harry Bosch series) and Dennis Lehane (the Kenzie and Gennaro series). Smartly written with enough violence, intrigue and romantic tension to keep you up till the wee hours!

After buying many books in airports and then realizing I'd either already read them (no longer a problem with digital) or bought book five in a series of ten, I finally began looking up the series order online and starting with book one. You can get many weeks or months of enjoyment from the characters as they develop and move from one conundrum to another. A to B to C is much better than F to C to A in a book series.

One thing that fascinates me about authors such as Connelly and Lehane is their ability to write sequentially about these characters but also make the individual books so damn good! They must concisely describe the current missing child, terrorist plot or psychotic serial killer as if it were the only thing that mattered at that point, but they also weave in enough background references and character details to keep those of us who are reading A-Z appropriately interested.

Business executives face the same challenge. Keeping the strategic thread and leveraging historical strengths while addressing current problems isn't easy. Following the strategy de jour and jumping from one shiny object to another doesn't provide the continuity and time to execute well.

If characters in a series don't develop, you question the author's ability. Studly young spies who kill bad guys with their pinkie must turn into wily veterans who use their head as well as their hands.

Likewise, business leaders must bolster raw enthusiasm and intuition with systems, techniques and emotional intelligence or they'll be a one-hit wonder at best.

Are your actions consistent with your articulated strategy or are you jumping at shiny objects?

When Growth Is In The Bag

An article some time ago in the Wall Street Journal highlighted an interesting question that Louis Vuitton was facing that awaits all successful businesses: What's the cost of growth?

My luggage selection doesn't attract gawkers and mostly comes from Costco. I love my nice briefcase, but I buy other luggage for function and, given how much I travel, I replace luggage more frequently than some change their oil.

Louis Vuitton luggage, in contrast, is high-quality but bought for the appeal of the brand. Its strategy is about exclusivity (not utilitarianism), low availability, high quality and high mark up. The beauty of this is that the company has significant pricing elasticity with a cost of goods that's probably not much higher than the luggage I use. As the Louis Vuitton CEO said, "Our paradox is how to grow without diluting our image."

Is more growth always good? No. Sometimes growth comes at a high price. Brand dilution would be the concern at Vuitton should it decide to sell luggage through additional channels at lower prices. You can almost hear the argument that would ensue when a new business analyst attended a lunch with the CEO (probably noshing on foie gras, escargot and truffles) and excitedly pronounced, "Excuse me, monsieur, but I've analyzed our market and studied our pricing, and I believe that with the increase in volume that we can anticipate, we should sell our trunks, bags and shoes at Wal-Mart because we could double our profits in a single year!"

I've had clients in multiple industries who've faced this problem as well. Fortunately, they took the long-term view, and the first screen that they put the opportunity through was, "Does this fit our strategy?" Too often, the only screen is short-term revenue. Sometimes an opportunity that offers nonstrategic revenue can be captured by creating another brand. I have a client who effectively services both the high and low end of an industry with two separate brands. He had to use great restraint to separate management functions, and even physical space, so both teams could focus on their respective customer groups, which had different buying behaviors and needs.

Unlike Louis Vuitton, which has had periods where demand outstripped its production capability, we're most often challenged by not enough demand. Regardless, I believe there are six questions that any company should ask about opportunities being considered:

1. Does this fit our strategy? (Better have one!)
2. What are our objectives?
3. What is the long-term return on invested capital? (There are many financial returns that can be calculated, but make sure you consider the time frame and cost of capital. Maximize the return and minimize the required resources to meet your objective.)
4. Do we have the cash to grow? (You can be profitable and grow yourself broke!)
5. What are the alternative growth vehicles that we might pursue?

6. What are the risks associated with this avenue of growth?

The biggest challenge to strategic growth is enthusiasm outstripping reasoned thought. Do your investors, salespeople, product development people and the public understand who you are and what your brand stands for? There's a reason that Dom Pérignon isn't sold in six-packs at 7-Eleven.


Objective
Strategy
Investment
RISK
Growth
Opportunity

What process do you have to identify and evaluate growth opportunities?

Witnessing an Execution

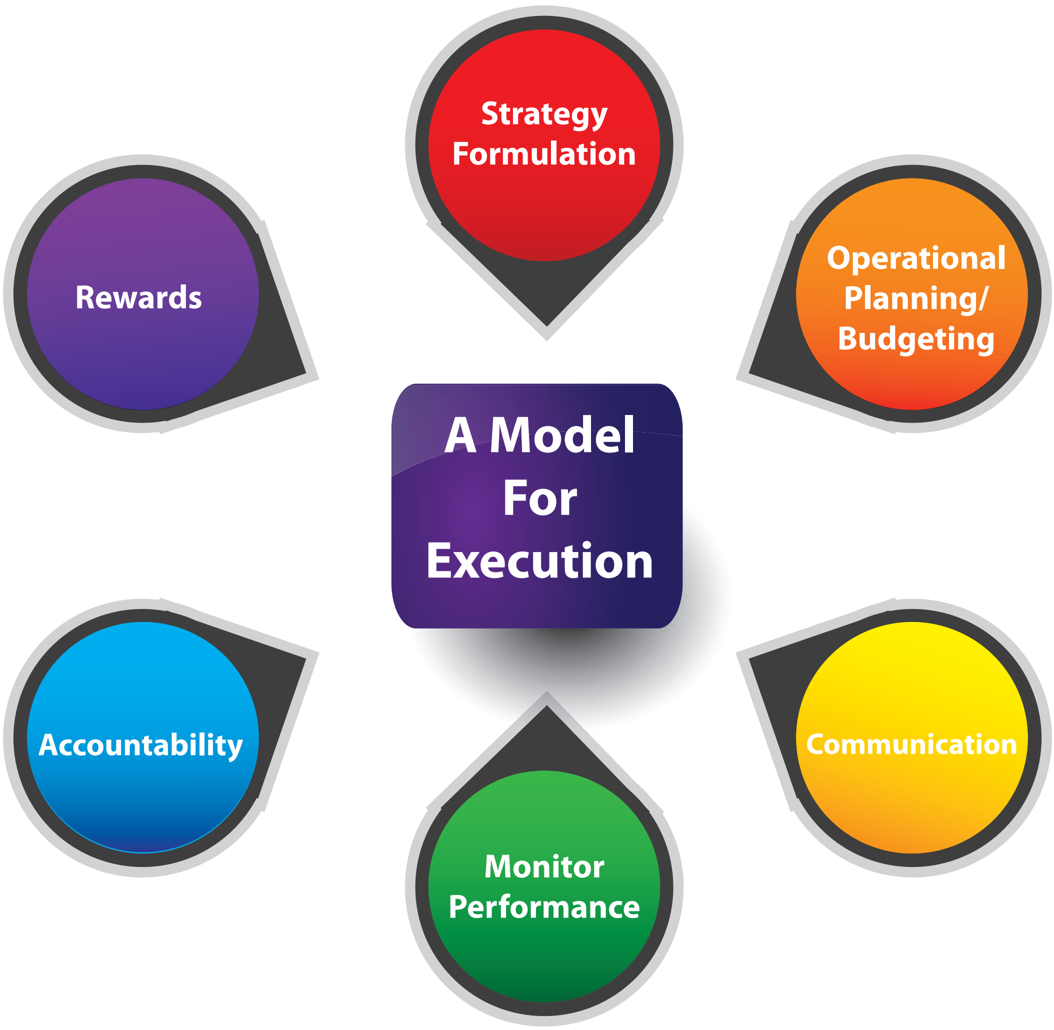
No, not that kind of execution — execution as in getting things done correctly.

Many management gurus will say, “It’s all about the execution.” They’re wrong. If you execute the wrong strategy brilliantly, you just fail faster. It’s about brilliantly executing the right strategy.

Sun Tzu said, “Tactics before strategy is the noise before defeat.” He also said, “Strategy without tactics is the slowest route to victory.” I’m not sure I’d quibble with him if he and his sword were in front of me, but I believe you cannot achieve victory without tactics. Strategy without tactics is merely a dream.

If we replace the word “tactics” with the word “execution” in the above assertions, the meaning holds. You have to have a successful strategy, but you must also execute well.

My best clients have a model for execution; they don’t leave it to chance. In the diagram below, I depict execution with six critical components. Don’t like six? Add a seventh. Like five better? Combine two components. My point is that if you have a model for execution with the critical components identified, you can then



discuss it, pinpoint how you'll measure success, identify how you'll train and reward, and determine what's broken when you don't execute well.

In a recent gathering I hosted, executives identified their strongest area as operational planning/budgeting and their weakest area as accountability.

Using this simple model, what are your areas of strength and what are your areas of weakness? If you can indentify them, you can build systematic ways to address them.

Do you have a model for executing your strategy or are you "winging" it?

Two Italian Restaurants

The Value of Consistency

I have a weakness for pasta and red sauce (Sunday Gravy, for you Italians), so on two recent business trips in the same week, I went out in search of a meal that would put a smile on Tony Soprano's mug.

The first restaurant was in an uptown environment, had a nice façade, an expansive wine list, a cozy atmosphere and a well-dressed staff. After a good glass of Super Tuscan red, my expectations were high. Unfortunately, the food tasted like it came out of a can. Maybe it did! The quality wasn't consistent with the image. I left frustrated and won't go back.

The second restaurant was in a strip mall. When I walked in, I saw hundreds of bottles of private label red wine sitting out (some in the sun), red-checked vinyl tablecloths and a casually dressed waitstaff. The red wine I ordered — only one type available by the glass — arrived hot (red wine should be served at about 65 degrees). The plate of spaghetti was huge and had a meatball that could've been used on the Pro Bowlers Tour. There were a few loud kids in the restaurant, and some people looked like they put on their Sunday best while others were bikers. I thoroughly enjoyed my meal.

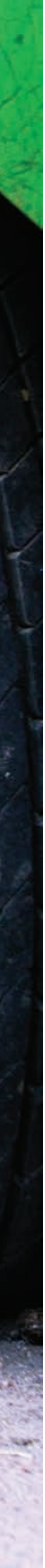
When I was in college, I was so poor I ate Tuna Helper without the tuna, but I'm now a bit of a "foodie" and like good wine. So why was I happy with restaurant No. 2? Because I knew exactly what I was getting when I walked in the door — they were entirely consistent. I also admired how fast they got people in and out, how efficient and friendly the waitstaff was, how much value customers received and how many smiling faces there were. They had achieved strategic alignment.

Restaurant No. 1? Fool me once, shame on you. Fool me twice, shame on me. I won't be back. If the strategy was to have an upscale experience, they completely missed a key element — the consistent application of this strategy. Remember when the airlines used to brag in television commercials about how great their service was but reality was closer to a cattle car with wings?

Is your strategy consistently executed? If your vision and strategy aren't clear to your team members, they'll get confused and frustrated. If your intent is to be a low-cost provider (e.g., restaurant No. 2), don't try to fool your customers into thinking they're getting a highbrow experience. If your strategy is to provide uniquely high-quality or great service and your image portrays that, you'd better follow through.

Customers who expect Château Pétrus but get Lancers will vote with their feet.

Are your image and your actions in the marketplace consistent with your articulated strategy?



Flat Tires

Are you prepared?

Spring weather causes me to think more of biking than skiing. Riding in the spring means lots of debris on the road and occasional flat tires. If you take long enough bike rides, you'll eventually encounter multiple flat tires on a single ride. It's happened to me several times. Flat tires aren't hard to fix, but you need to be prepared. The benefits of carrying a spare tube, a couple of patches and a pump far outweigh the consequences of being stranded in the rain with looming darkness.

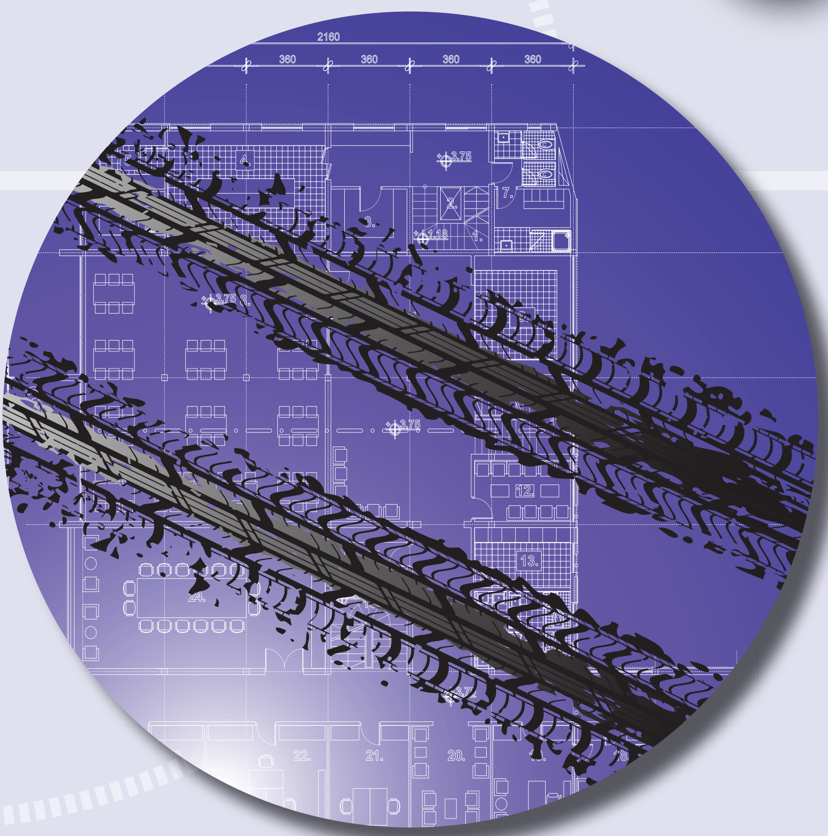
With my "be prepared" mindset, you can imagine my chagrin when I frequently find the emergency kit from my wife's car on the floor of the garage. I put it back in her car. She takes it out. I put it back in. She takes it out. When I ask her why she takes it out, she says, "I've never had to use it." I remind her that Captain Sullenberger had never needed to use his water landing skills before ditching his airplane in the Hudson River, but she doesn't appreciate the hyperbole. (While I believe that her Boy Scout skills are sorely lacking, she's probably thought this through and would rather call me to fix the problem — so who's really more prepared?) In a further effort to change her mind, I ask, "Aren't you glad our son was well-trained by the Marines before he went to Iraq?" "Don't be dramatic," she says, “I’m not going to get shot.” I don’t seem to be winning this argument, so the emergency kit sits on the floor of the garage. However, I still carry a spare tube and patches for my bike.

Your business requires you to think about the future; maybe multiple futures. What kind of flat tires might you encounter? You can’t anticipate everything. Committing to a particular course of action is often the only way to use limited resources. If you’re Boeing™, for example, you must commit huge investments of time and money to a new aircraft. Imagine the executives saying, “We can’t decide which of these five aircraft will sell well, so we’re going to build them all!” Most businesses have neither that level of investment required nor the lengthy time horizon required to develop a new product.

Strategic thinking should be primarily about offense, not defense. But consider multiple scenarios so you can respond when the future brings you flat tires. “Prepared minds” is a highly valid objective for strategic thinking.

Engaging your team in a semi-annual conversation to discuss alternative views of the future isn’t much more work than simulating water landings in a commercial aircraft. While the probability of having to land in the water is very low — as low as the economy imploding or a massive oil leak in the Gulf of Mexico or a nuclear disaster in Japan — the payoff could be lifesaving.

Do you have a process to evaluate risk and identify contingency plans?



An Artificial Market

The Expensive Glue That Binds Textbooks Together

I was 20 minutes early for an appointment in Los Angeles the other day and spotted the ubiquitous green siren of Starbucks, so I dropped in to top off my caffeine high. As I exited my Ford Crown Victoria rental car with my sunglasses on, looking like an undercover cop—who the heck else drives a Crown Victoria?—I looked at my parking neighbor, a 30-something-year-old guy in a slightly smaller version of another gross-looking American car. With his laptop propped on the steering wheel, he was obviously accessing the free network at Starbucks. He gave me a knowing smile.

I've seen this before; in fact, I've done this before. The hilarious thing is that occupants in the other two nearby cars in the jammed parking lot were doing the same thing! Even though they weren't drinking Starbucks coffee, they were using the Starbucks network for free and taking up parking spaces. The unintended consequence of providing free Internet access, which we now expect everywhere!

While changing expectations—often driven by technology—can make our lives easier, they can also completely change or even destroy markets. The music industry was ripped apart post-Napster when we decided music should be free or at least cheap and that we should be able to buy it from the couch in our underwear. Tower Records' loss was Apple's gain, and the consumers won big!

Technological change has rocked publishing as well. The ills that befell newspapers and trade publishers are now affecting academic publishers. The number of students who expect content to be free or low-cost and ubiquitous is rising. Undergraduate students get by in some cases by using Wikipedia and other web sources rather than textbooks. Used books and rental books are eating into new textbook sales. Yes, you can now rent textbooks. (Ironically, e-books in the education space have not yet taken hold to the degree you might expect.)

However, higher education academic publishing (that is, journals and books) is held in place by some unusual glue. Tenure requires professors to publish or perish, and they must publish in peer-reviewed journals to get the most notoriety. (If you can find a young untenured professor and buy her a beer to two, you might hear complaints about it, but once in the club, the story often changes.) A move toward "open access" pressures this system, but as long as tenure exists, it will be tough to unseat the other variety. Weirdly, university libraries purchase these expensive journals, but often no one reads them. This is an inefficient and artificial market. You find these when the buyer has no or limited choices or when the decision maker is not the one who pays.

Professors decide which textbooks they want their students to buy. Understandable, but it creates another unusual market. In fact, the price of textbooks has increased at twice the rate of inflation. Typically, products that have that kind of pricing negative elasticity are brilliantly innovative, such as Apple products, or have a captive market.

I find academic publishing a fascinating example of business that is enhanced by "artificial" conditions. Think about how tenure and buying decisions (that is, professor picks, students or parents pay) potentially hold back free market principles and dissemination of information.

With the last of our four children just finishing college (and off the payroll!), I've had a keen interest in the process and price of textbooks and higher education for some time. The fact that there are now free resources for learning college-level subjects (albeit without credit), as well as abundant options for disseminating information in less expensive ways, ought to bring some radical change to the educational publishing model.

I don't expect university parking lots to soon be full of people like my parking mates at Starbucks looking for free information, but with so many moving parts, something's going to blow up and something new will take its place. Creative destruction at work again!

Are you confident that you are winning for the right (and real!) reasons?

Blurred Lines

Strategy at the Edge

Some of the most successful companies I've worked with intentionally blur the lines between work and personal life. Their view is that you don't have a work life and a personal life, you just have a life. Coincidentally, they have high productivity even though they allow their team members the flexibility to lead enjoyable lives. This got me thinking about "blurred lines" in business strategy.

Perhaps you've noticed how the lines have blurred between digital technology and automobiles. We can now control many automobile functions with our smartphone. While we only replace our cars something like an average of every five years, we replace our digital devices much more frequently. This is an interesting example of how blurred lines can often lead to business opportunities. It's a lot cheaper to update your smartphone than your car! Have you noticed some of the recent car ads are more about digital "gee whiz" than horsepower?

Think about how blurred lines have changed business and our lives. Travel + entertainment = cruise lines. Voice + data = webcasts. Books + computers + Internet = e-readers. Education +

Internet = distance learning programs. Companies that used to send data (e.g., cable TV companies) have blurred the lines between entertainment and communication. How about recreation and work? I was in a tram in Whistler, British Columbia last year with six guys and five of us were either on the phone or checking e-mail. Work or play?

Here are a few others from the last several years:

- Medicine (curing the sick) and health: These have fortunately blurred. On my last visit to the doc, we spent more time talking about staying healthy than what was wrong.
- "Professional" journalism and "citizen" blogging: This may have harmed the traditional journalists but increased the richness and timeliness of information.
- Private companies and traditional government operations (e.g., education, prisons, some military functions). Some good, some bad.
- Function and fashion: Take a trip through REI and look at the outdoor clothing: pockets, zippers, clips, clamps, built-in avalanche beacons etc.

Are you watching some industries fight blurring lines? Some in traditional journalism, for instance, are still ranting about quality as their business declines.

I'm a big fan of searching for good questions rather than just answers. Here's one you might ask yourself and your management team: "What lines are blurring in our industry, and how can we take advantage of that?" or "What lines can we blur to gain an advantage?"

How can you blur the lines of your industry and take advantage of it?

Half-Caf, Nonfat Strategy

Taking a hard right with your strategy is a harrowing experiment. Just ask Ron Johnson and Bill Ackman, JCPenney's former CEO and his previously supportive board member, respectively, who've both been bounced out of the company. Reed Hastings at Netflix also understands this, but so far he's been relatively successful.

The difference between the JCPenney and Netflix stories is fascinating. Both companies realized their business model would no longer work. Both charted a new course, both required dramatic change and both initially lost many customers. Netflix recovered. JCPenney didn't, at least not yet — and I don't like its chances.

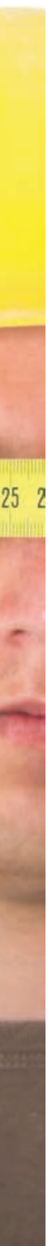
I think Johnson, who'd previously run Apple's retail stores, was probably courageous, as is Hastings. I don't want to oversimplify this, because I don't believe the JCPenney strategy was thought through as well. However, it's also entirely possible the difference was because Netflix was all in while JCPenney caved in.

When business demands that you take a hard right, you can't waiver. If you're like the woman in front of me at Starbucks today — unsure about the size, caffeine dose or foam — you won't have a shot at success. My favorite coffee shop calls a decaf, nonfat cappuccino a "why bother." A close cousin of "why bother" is "I can't decide," like the strategy embodied in the sign below. Specialists in… everything!

When a fast-approaching brick wall confronts you, there's no guarantee that a new direction or strategy will be successful. But it's certain that if you do the same things, you'll get the same results. Hope is not a strategy. Make a choice and give it the time and energy it deserves!

Are you fully committed to your strategy or are you trying to play it safe?

SLOW



Measure Twice, Cut Once

Craftsmanship and Strategy

My brother is in management at a large financial firm but is as good at construction as any contractor. Whether it's a deck, a finished basement or a sauna, he builds it perfectly. Likewise, my friend, John — an engineer — is a great woodworker. He builds grandfather clocks that Angela Merkel would be pleased to have in her foyer. If either of them built violins, Stradivarius would be in trouble. They're true craftsmen, blending art and science into great finished products.

The term craftsmanship is less used today than in the past, but it's well-suited for developing business strategy. The process of designing and building a grandfather clock and crafting strategy for a business have four striking similarities:

1. The Right Tools: A craftsman wouldn't start a project without the right tools, the right people and a process. Crafting strategy has requirements as well. Put 10 brilliant people in a room without a methodology and tell them to come back with a strategy and you'll rarely get good results.
2. Slow Down: Speed is the enemy of quality in this case. In

our ADD world, CEOs sometimes think they can craft strategy in 30-second bursts between phone calls, tweets and e-mails. In crafting strategy, it's important to disagree, debate the future and search for answers to hard questions. The likelihood of crafting a winning strategy and a plan for execution in a one-day off-site is akin to remodeling your house between dinner and the 10 o'clock news.

3. Measure Twice, Cut Once: Crafting strategy and building a grandfather clock both require planning and execution. My woodworker friend would never just start cutting boards willy-nilly to see what he ended up with, but business leaders do. It's as if they say, I'll just keep randomly cutting and gluing wood until something materializes. Likewise, a master craftsman knows that great plans executed with a dull saw won't produce quality. Planning and execution are of equal importance.
4. Build a Different House: If you use someone else's plans to build a house, yours will look just like theirs. Same result with strategy. Crafting strategy is about being different from your competitors.

One reason people don't use the word craftsmanship as frequently today is that automation has allowed for high quality without the need for human hands. Craftsmen were often woodworkers, metalworkers, jewelry makers and artists. Extrusion molding, lasers, plastic and robotic equipment have reduced the need for craftsmen in those areas. However, I have yet to see the machine that will replace an inquisitive CEO and his management team in devising a series of actions to build a sustainable advantage over their competitors. That requires craftsmanship.

Do you have a measured approach to evaluate your market, your strengths and how you will effectively compete?

Minimize, Maximize or Optimize

Which of the below sound like good business advice?
You should:

- Maximize profits.
- Minimize expenses.
- Minimize conflict.
- Maximize customer service.
- Maximize market share.

In some cases and to some degree, these statements are true. However, they can also be extremely problematic.

Maximize profits over what time frame and at the expense of what? Long-term profits? Values? Ethics? A bird in the hand may be worth two in the bush, but what about three, four or five?

Minimize expenses to what end? Short-term profits? A burned-out team? A high return on invested capital over the long haul? I've seen many retail establishments minimize payroll only to ruin service levels. A boss once told me to minimize a certain expense. I told him I could take it to zero, but we had to close the doors. What if you could spend more and make more?

Minimize conflict? Sounds nice, doesn't it? Certainly maximizing conflict isn't a brilliant idea, but when conflict is avoided or minimized (unfortunately often called "managing conflict"), issues aren't fully explored and go unresolved.

Does maximizing customer service mean you'll do whatever they want? Will you adjust your product and services offering for everyone? Will you provide champagne for the price of beer? Many years ago as an executive, I built a system that resulted in substantial customer service gains, but it cost a fortune and wasn't a good return on investment.

Maximizing market share sometimes means you buy it from your competitors, and that most always means margin degradation. Bigger is sometimes better, but not always. Shooting for market share above all else is a bit like marketing for eyeballs on the web. Many eyeballs don't carry wallets!

When we only think of our business objectives and challenges in a binary fashion (minimize or maximize), we lose perspective, make rash decisions and damage our long-term growth and profit potential.

Optimize is a much better word than minimize or maximize. If you optimize expenses, you get profits today but invest for tomorrow. If you optimize conflict, you occasionally upset someone but get better decisions and behavior. If you optimize profits, you can reinvest the right amount for greater returns tomorrow. If you optimize market share, you don't get into destructive price wars with your competition.

Of course, optimize has a different definition depending on context, but I think if you use the word as a starting point for the conversation, you'll get much smarter objectives and results.

What are the 3 things that you need to optimize in your business to successfully execute your strategy?

PLANNING vs. AGILITY

Planning vs. Agility

Prospering in a VUCA World

The voodoo that you do so well may not work anymore!

V*olatile, Uncertain, Complex and Ambiguous* (VUCA). Does this sound like our current economic environment? How do you prosper in this environment?

If I ask you to name one organization that needs to be able to predict and plan, above all others, you might suggest the U.S. Army. Would it surprise you to know that people refer to the U.S. Army War College as VUCA-U? Though change affects some organizations more than others, no one escapes the effects of VUCA. It can either torment you, or you can capitalize on it.

Below is a brief test to identify your company's susceptibility to change. Rate each statement from 1 (low agreement) to 5 (high agreement).

1. Our competitive advantage is based on intellectual property or technology.
2. Our customers have multiple options to meet their needs.
3. Our product/service is non-essential.
4. We're dependent on things we cannot control (for example, interest rates, government intervention, weather and suppliers).

5. Our business model requires many critical relationships.
6. We have a high fixed-cost structure.
7. Innovation is high in our industry.
8. Our value proposition is hard to articulate.
9. It's difficult for us to predict trends in our industry.
10. Our company has been stable for many years.

(Question 10 might be misleading. Stability is good, but it also becomes a significant barrier when rapid change is required.)

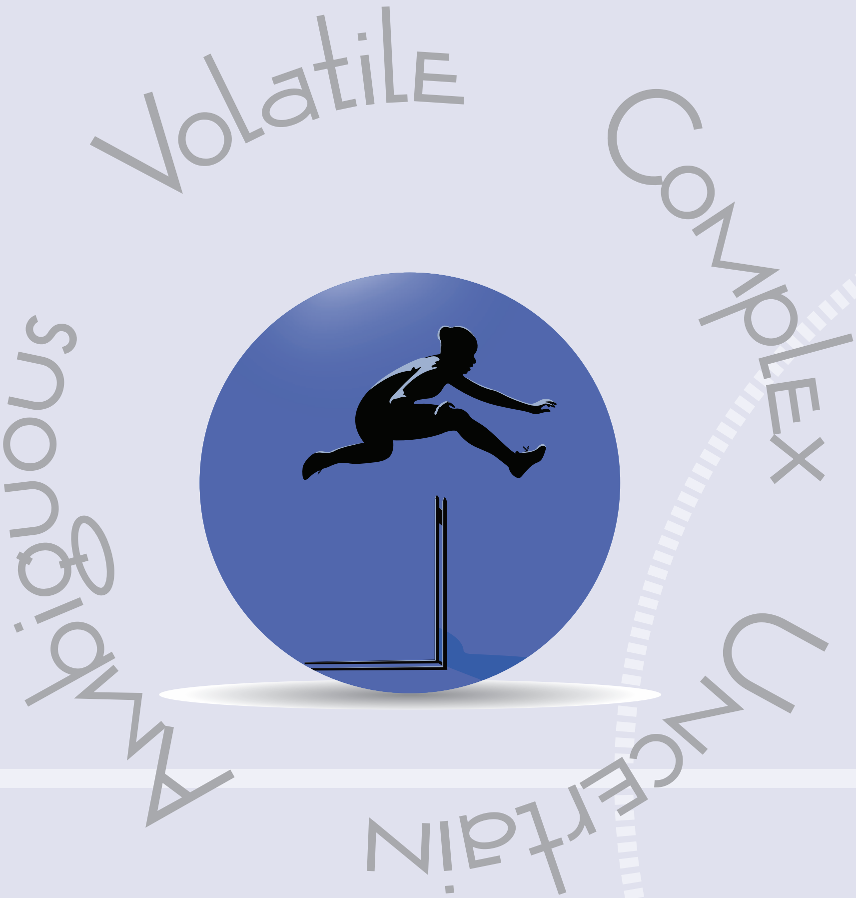
If you score below 25, you'll likely benefit from considerable planning. If you score above 30, you'd benefit more from high agility. If you score 40 or above, I'd be extremely concerned about how change might impact your future. Consider taking steps to change your business model and become more agile. If you score extremely high, there's a chance that you're in pain right now given the VUCA environment.

VUCA is one of the best reasons I know of to search for the right questions to ask yourself about your business. Here are a few you might consider with your management team to increase your agility:

1. How could we turn fixed expense into variable expense?
2. What organizational design best allows us to deal with VUCA?
3. What kind of financial reserve should we have to navigate rough waters?
4. What kind of market sensors can we establish to help see what's coming our way?
5. How can we eliminate concentration issues (that is, high dependence on a few customers, suppliers or fickle customer groups)?
6. How can we take advantage of VUCA?
7. How can we increase the speed of our critical processes?

There's a saying in the military: "The plan never survives the first contact with the enemy." This is a great case for agility! General Dwight Eisenhower also said, "In preparing for battle, I have always found that plans are useless but planning is indispensable."

Build in organizational agility, but don't stop planning!


Volatile
Complex
Uncertain
Ambiguous

How did you score on the agility quiz? What can you do to increase your agility?

THE PRICE OF GREEN EGGS AND HAM

Sam I Am

The Price of Green Eggs and Ham

I'm sitting in the United Club waiting for a flight to San Francisco. It's jammed.

Talking loudly behind me on a mobile phone is a guy so goofy that I can't help but think of Dr. Seuss!

In the past 10 minutes, I learned he's a sales manager. A competitor stole some accounts, and the guy he's talking to is obviously a salesman whom this negatively affected. Sam, the Sales Manager, is giving him a buck-up speech, repeatedly telling him he knows many of the competitors' big customers and that they'll go hard after those accounts, even if they have to lose money. (Dr. Seuss famously wrote "Green Eggs and Ham" with only 50 words. I believe that Sam the Sales Manager might've used fewer in his conversation, but continually, as if they'd become more relevant by repetition.)

This conversation is wrong on many levels. In addition to talking about confidential information in a public setting—he used names of companies and people— he's wasting his and his subordinate's time, using extremely foul language, painting his competitor as an idiot and admitting to obtaining his competitor's customer list in an underhanded way. If I'd listened another 10 minutes, I might've heard him admit to killing Jimmy Hoffa!

However, as boorish and unethical as this guy is, the one strategic sin that caught my ear was the price war that he's starting for emotional reasons. Not so smart. Price wars destroy value for everyone involved.

Pricing must support your strategy. If you're confident you're the low-cost provider, you might strategically use pricing to grow your business as Walmart has. Its supply chain management is unequaled. Amazon is another company that strategically used price to gain share and volume. Its distribution model is much less costly than the old brick-and-mortar model.

You'll not likely catch premium brands offering "everyday low prices" or selling products at cost to drive volume. It would be inconsistent with their strategy.

Loudmouth Sam is not thinking strategically; he's thinking emotionally and probably worried about his commission. His company is trying to execute a differentiation strategy, and he's turned the product into a commodity. It'll be difficult to recover from this when he moves on to his next gig.

So, what strategic questions should Sam ask himself and his salesperson?

- What does it mean that this competitor so easily stole our business?
- Is our pricing reflective of the value we provide?
- What additional services or features could we offer to enhance our value?
- What services or features might we eliminate to reduce our cost?
- Why should our target customers buy from us versus our competitor?

When pricing and sales behavior are divorced from strategy, silly behavior results, whether on a boat or with a goat.

Are your sales and marketing tactics consistent with your value statement and strategy?


STRATEGY
EXECUTION
SUCCESS

What Strategy Is NOT

I was once involved in a turnaround situation that required quick action. I looked at the company's major accounts (ranked by revenue) and then had the CFO do a net (not gross) profit analysis by account. It turns out that the third-largest account was unprofitable when we added in the overhead costs and had been for years. I brought this to the account manager's attention, and he confidently responded, "Yes, but it's a strategic account!"

If you put 100 executives in a room and ask them to define "strategy," you'll likely get 200 different answers. People use the term loosely. However, when you're talking about business strategy, it's too often used as a synonym for important, critical, large, thoughtful or expensive. It can be all of those, but they don't define strategy.

If you define business strategy as an integrated set of actions designed to create a sustainable competitive advantage, you have a good start. However, it's often helpful to define what strategy is not.

If you agree with this definition, "turnaround" is not a strategy. It's the result you hope to get when you take short-term actions to stop the bleeding. If it eventually affords you a new set of actions that bring you a sustainable competitive advantage, then it's a strategy!

M&A is not a strategy. Important? Certainly. Deserving of the CEO's time? Yes, if you decide to use it as a tool to support your strategy. However, unless you're a private equity firm or a conglomerate (for example, GE), acquisitions, however important, are tactical. They might provide you with a new skill set, market or channel, but in and of themselves, they're not a strategy. Most often, by the way, acquisitions end up looking like buying growth or EBITDA or possibly assuaging egos (they also don't often meet their objectives).

Employee engagement is not a strategy. It's a worthwhile and profitable practice, but by itself, it doesn't identify how you'll successfully compete. Engaged around what?

Execution is not a strategy. I've heard CEOs say, "My strategy is to execute well." Execute what? If you execute poor ideas extremely well, you'll just fail faster.

During deliberations on pornography, U.S. Supreme Court Justice Potter Stewart once said: "I shall not today attempt further to define the kinds of material I understand to be embraced within that shorthand description, and perhaps I could never succeed in intelligibly doing so. But I know it when I see it."

Strategy is similar. If one can look at your actions and see how they set you apart from the pack, you probably have one. If you can clearly articulate what your strategy is in a couple of sentences, you might have one. If your employees know what aligned set of actions to take for you to be successful, you likely have a good one!

Do you really have a clearly articulated strategy or are they just tactics?

10 Reasons Strategic Plans Fail

Executives and owners of mid-size businesses are often frustrated with the results of their strategic planning. I have observed that failure to plan effectively is the result of some consistent themes. Some of these may sound familiar to you.

1. No collaborative process in developing the plan. A "cram-down" will yield poor results. Command and control leadership may work effectively in the military and in a time of crisis, but it will not yield lasting results. Participation is key to developing a good plan and more importantly, developing a sense of ownership.
2. There are too many strategies. Do less and do it better. I recently asked a client for his list of strategies and objectives. He handed me a document that would have taken a decade to accomplish. When I suggested that this was a great deal to tackle in one year, he sheepishly told me that this was his list for the quarter. Few organizations can be successful at more than two or three key strategies. Your staff should be able to tell you what they are and what they are doing to reach them.
3. There is no plan for execution. The strategic plan must

cascade into action plans. There is evidence that senior management is more effective by very clearly articulating a vision and the key strategies than by forcing a detailed operating plan down the pipe. However, managers must be able answer the question, "What are you doing to successfully implement strategy "X"?

4. The budget does not reflect the strategic plan. For example, are you counting on new product development to bring you success? If so, what is your R&D budget? Are you one of many who believe that "your people are your strongest asset?" If so, what is your budget for training and development and compensation?
5. There are too many existing barriers to success. Fix them first or you'll waste time and money in the planning process. Often times executives are well aware of key weaknesses but are unwilling to take corrective action. They continue to plan around these weaknesses and never accomplish their goals.
6. You have the wrong team. It takes talented, assertive people to create a good plan and execute it. A great quarterback cannot succeed without a great offensive line. Likewise, a skilled leader cannot exist without a talented team.
7. You may have a brilliant strategic plan, but most of the company doesn't know what is in it. Communication and alignment are critical. Visions and strategies must be reinforced continually in many different ways. I used to run a large retail organization. I knew that we were effectively communicating if I could walk into a store hundreds of miles away and ask a front-line manager what our vision was or what our key strategies were and get the right answer. If he had the wrong answer, it was not his fault. I knew that I had probably failed to communicate effectively.
8. You don't know your market. Without market intelligence, you are counting on luck. This is part science, part art and part curiosity. It is not—as some would ask you to believe—all intuition. If I am going to sell a size 13 widget to conservative females between the age of 18 and 35

with red hair, I darn well better know how many there are. I know the former CEO of a large organization who had no idea how large his market was, whether it was contracting or growing, or whether there were any substitute products waiting to knock him off. There were and he failed.

9. Your plan is not executable. You must ask, "What resources and core competencies do we need to get this done?" It is easy to get excited about strategic conversations without thinking through the action required. This is particularly important once you turn strategy into operational plans. I just met with the CEO of a growing company who recently killed a potential new product line—even though it had great promise—because he knew that it was beyond the capabilities of his organization—at least for now.
10. The previous five plans have gone nowhere and you don't know why.

Which of the 10 are bogging you down and what are you going to do about it?

Todd Ordal, President of Applied Strategy LLC, works as a thought-partner to CEOs and their senior teams to enhance organizational performance through better strategy and effective leadership. He is a former CEO with 32 years of leadership experience and is also a Certified Management Consultant™ and a certified executive coach.

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