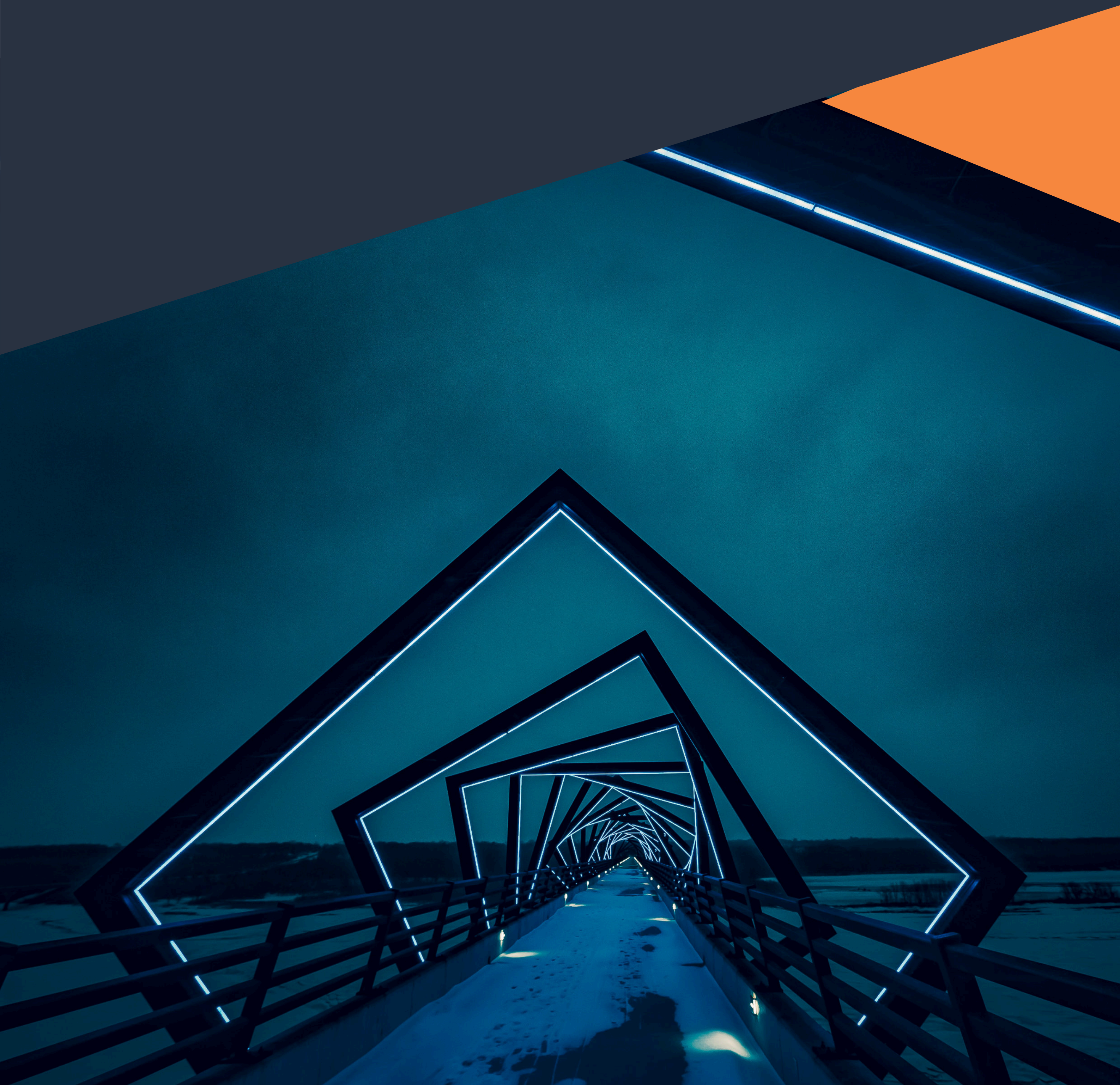
Veridia Consulting

ACTIONABLE GUIDE

Four Facets of a Good Strategy



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A Good Strategy

A strategy is what a company is going to do to be successful. Making a good strategy isn't easy because it isn't obvious. Making strategy requires both insight and logic.

Recognising a good strategy is easier than making it. Look for these four facets to assess the quality of a strategy:

1. being clear on what challenge the strategy needs to tackle,
2. creating a solution to tackle the challenge,
3. being able to execute the strategy,
4. being able to make money with the strategy.

If any of these facets isn't covered, the strategy is incomplete. Don't mistake quantity for quality. The number of words or slides used to describe the strategy isn't an indicator of its quality.

The strategy should fit the company that wants to execute it. It also should be ethical and not exploit people or our planet.

Achieving success with a strategy is not guaranteed because the company does not control the market, customers or competitors. However, a good strategy should - as a starting point - account for the market and competitive factors that the company knows about.

1 – Choosing a Challenge

Before jumping to a solution, a strategy needs to be clear on the problem or challenge that it is intended to tackle. If the problem statement is weak or missing, then the strategy may lack direction.

Specific Goals What does the company need the strategy to do? Instead of generic aims like 'grow faster', check the strategy for goals such as

- A company trying to sell their innovative product needs to find the most attractive market.
- A company losing sales needs to find new target customers and determine how to reach them.

Known Challenge If goals were achievable without effort, there would be no need for a strategy. What is stopping the company from achieving its goal? For example,

- The company's product doesn't stand out versus the competition.
- The company's product is becoming obsolete due to a disruptive technology.
- The market is new and no one knows whether customers will adopt this product.

Customer Needs The core questions for building a business are "who are the customers" and "what will they pay for?" Companies are rarely unclear about their products, but they can have a fuzzier picture of why their customers buy from them.

Some companies think they know what their customers want based on the opinions of their employees. It's better to get this information from customers themselves. For example,

- Our customers are professional installers who buy our electronic components because they are compatible with a wide range of systems.
- Our customers are parents who buy our meal kits because they want to cook healthy food for their family without a lot of effort.

2 – Choosing a Solution

Coming up with a strategic solution requires both creativity and logic. Creativity for having ideas about potential solutions, and logic for finding the right solution to the strategic challenge.

Strategic Choice The strategic choice is the core of the strategy, the element most likely to be called "the strategy" when stated on its own. It states what the company will offer to whom and how. The offer has to be something that the customers value and are willing to pay for. For example,

- To grow our market coverage we will offer low-price groceries with fresh fruit and vegetables to budget-conscious shoppers in small stores in city centres.
- To retain our professional customers we will offer the next generation of our products with the same quality and reliability that they value, and help them to make the switch.

The strategic choice should be a credible way for the company to address the challenge that it is facing.

Target Customers One size does not fit all. Whatever features a product has that make it attractive to some customers will not make it attractive to others. Trying to serve everyone means the product is perfect for no one. It will be out-competed by products that are better suited to each customer.

The target customer is the one who will be best served by the company's offer. For example,

- We will target our easy-to-use coffee machines to consumers looking for a convenient way to make single cups of coffee at home.
- We will target our locally sourced organic vegetables to local consumers who come to our store looking for more ecologically conscious food.

Competitive Advantage A company rarely has a market all to itself, so it has to position itself in relation to its competitors. If the company is offering something completely new, then it has to persuade customers to give it a try and learn how to use it.

The key question to answer here is why customers will take this offer over another. What will make it stand out and attract more customers? How will the company stay ahead of competitors looking to copy its offer or beat it with one of their own?

A competitive advantage could be, for example,

- We build the newest machines needed to make the smallest computer chips before anyone else.
- We have the largest network of data centres to offer cloud computing services across many geographies.

3 – Executing the Plan

The next step is to make the strategy happen in practice. Ideas without execution don't get results.

Action Plan The action plan doesn't cover everything the company does, only the important actions that relate to the strategy. It should be doable with the resources that the company has available.

If it isn't possible to translate the strategic choice into an action plan, then the company needs to come up with a different strategy.

Let's take an example of a company that wants to expand the sales of their CRM software in a new country. Their strategic choice is to use the high satisfaction of their existing customers to attract new ones. Some of the key strategic initiatives could be

- Translate and localise the product for the new market,
- Recruit a local sales team with contacts in the target region,
- Approach current customers who have offices in the new market,
- Gather customer testimonials and provide these to sales and marketing teams.

Capabilities Each company is unique in its capabilities and therefore in what it can and cannot do. A strategy that will work for one company will not work for another.

The capabilities come from the people (their skills and knowledge, management systems, culture, way of working) and from the assets that a company has built up over time (brand, patents, software, factories, technical designs, know-how).

Companies can fail at executing strategies when they do not consider how big a change it would be from what they already do. For example,

- A company that is highly regulated and organised will not be a natural fit for a strategy requiring making changes on the fly.
- A company with no prior experience in software development is not going to suddenly be able to offer their service as an app.

If a company's strategy requires new capabilities, then it should specify how it will develop these, and the shift should make sense. If the shift is a fundamental change in how the company operates, then expect it to take time and be highly risky.

Focused Efforts No matter how large, no company has infinite resources nor infinite time. It can create a multitude of initiatives, declare them all to be important, and have the same group of highly regarded employees working on all of them. The employees end up dividing their time among these activities and making little real progress.

It takes critical mass and cross-functional coordination for a strategy to succeed. If the company does not set priorities, they will be set by the employees or departments, who may each pick a different one. The company's leaders should set priorities and allocate resources to them. This includes not doing things that aren't a priority.

Setting priorities feels scary because it feels like a company is reducing its options, therefore reducing its chance to succeed. In reality, the opposite is true. While the company is making slow progress on ten initiatives, another company is going all-in on one of them and beating them to the market.

4 – Making Money

There are plenty of strategies that don't make money. A company may have a business model that isn't profitable, or need to go through a ramp-up period of losses before making a profit.

Whatever route it chooses, a company must ultimately create value for its customers and stakeholders, which means making a profit. The strategy should give a credible explanation of how it will do so.

Sound Economics If a company does not have a good handle on its cost structure and pricing potential, it can create a strategy where the numbers don't add up to a profit.

Price levels are limited by what the market will accept: both the customers' willingness to pay and the prices charged by competitors and substitutes. Losing customers to a cheaper competitor or technology is a very common scenario.

A common cost pitfall is having a cost to serve that cannot be covered by the expected volume and margin on the product. Beware having a negative contribution margin and expecting 'to make it up on volume'.

Although making a good business case is the domain of finance, understanding the financial logic of the company is essential when making a strategy.

Sufficient Investment Many strategies are made to help a company grow bigger. These require investing in the capacity and resources needed to deliver more products to more customers. If the investment is insufficient, the strategy is unlikely to deliver the growth.

Sometimes a company plans to cut costs and grow at the same time. That isn't a credible combination. A company might state in its plans that it will 'eliminate inefficiencies' but unless those are very specific, and in areas that are not intended to deliver growth, that plan isn't likely to succeed.

A Good Strategy is Ethical

The four facets of strategy focus on its effectiveness in helping a company achieve its goals and succeed in its market. They don't specify what kind of goals the company is aiming for or what kind of choices it makes to achieve them.

A company can make money with a strategy that harms others instead of helping them. For example,

- Making it impossible to cancel a recurring service on its website,
- Remotely disabling devices that don't use its spare parts,
- Using copyrighted works without paying for them,
- Selling nicotine products to children,
- Razing rainforests to plant crops.

However, I do not consider any of those actions 'good'. Neither does our society, which is why we have laws and regulatory bodies to limit such harmful, exploitative and anti-competitive practices.

So this dimension of good strategy is different from the rest. A good strategy is ethical. It takes care of all stakeholders and does not exploit people or our planet.

About Veridia Consulting

Veridia Consulting supports business leaders in making and executing growth strategies that get results. It works with companies across Europe to create actionable growth strategies, improve their execution and transform their organisations.

Veridia Consulting was founded in 2016 by Nora Ghaoui to help people and companies be more successful in business. Nora has an 18-year track record with an 87% success rate in delivering real results.

For more details, please visit https://www.veridia.nl.

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