

# Delivering Profitability

## *A Consultant's View*

### Chapter 2 - Business Strategy Drives Growth and Profitability



by David Wagstaff

Strategy defines and communicates what the business is about, where it is heading and how the business managers plan to achieve their vision. When done well, it helps guide both those within the company and those who provide services to the company. It defines what is of the highest importance and what's not. And ideally, it provides a high-level roadmap for management's plans to pursue and achieve its aspirations.

You may feel that this chapter doesn't apply to you. Maybe you're an experienced business person with formal business training and you believe you already know everything that you need to about business strategy and planning. Or, perhaps you work for a large company and you believe strategy only applies to the top few executives and the board of directors. How can you impact the overall company strategy?

Consider these two points:

- » In larger companies, developing business strategy applies not only to the overall company but also to each group within the company. Each team or group needs to understand how they fit into the big picture and vision for the company.
- » If you are already well-versed in strategy, use this chapter as a review. Take time to reconsider if there are any opportunities within the components of your overall strategy that are unnecessarily expending your scarce resources or are not optimizing your ability to grow and deliver excellent services for customers. In companies of all sizes, I'm amazed how often many challenges start at a fundamental strategic level. For example, not all expense challenges should be addressed through merely reducing an expense item but more fundamentally by evaluating if the business needs the expense at all. I have seen huge efforts wasted on optimizing an expense category, when the expense wasn't even necessary to accomplish the company's vision.

### **Business Strategy is Important**

A 2007 study of financial institutions led by this author while working with PA Consulting Group, demonstrated two key elements related to strategy:

- 1) Banks with a formal stated strategy for growth significantly outperformed those who did not. Those with a formal strategy realized 15.4% asset growth over a 5 year period and earned 1.08% on those assets while the banks without a formal written strategy for growth saw growth of 5.4% and return on assets of 0.53%.
- 2) Those who placed Organic Growth as their top Priority grew at 19.46% and achieved 1.11% return on assets. Total Income also grew faster at 14.31% vs 13.38% for the general population.

While the study referenced above was specific to banks, throughout my 20 years in consulting I've seen businesses across many industries experience similar results. They perform better when management and staff are clear about the business objectives and the strategy for obtaining those objectives. However, while it's important to have a strategy and communicate it, the road to success in each business is unique. One business may find success through an intense focus on creating and maintaining excited, engaged customers. Another may create success through a precise focus on increasing products sold per customer.

Strategy is at the core of profitability. Strategy which is too widely defined can be overly expensive to execute. Strategy which is too narrowly defined can cost lost revenue opportunity. Furthermore, operating a business inconsistent with its strategy is likely to either waste resources or miss customer opportunities. For example, a company with a core strategy of winning customers through lowest cost must look for processes, structures, and methods of delivering services consistent with being the lowest cost provider. By contrast, a company which defines its strategy as providing the highest quality customer experience, should expect to spend more resources on the quality of its staff, investments in innovation, and understanding its customers.

## Developing a Strategy – Where to Begin

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So, you're ready to start defining a winning strategy. But, where do you start? First, you need to define what success looks like to you and your company. Even before defining the strategy itself, define how will you know if you have a strategy that works for you.

For example...

- » “We will be successful if we can demonstrate that we making a difference for our community and our employees and are providing a fair return to our shareholders.”
- » “We be successful if we see an above-market average return for our shareholders.”
- » “We will be successful if our family is able to continue to operate the business for the benefit of the current generation and the next generation.”

## Core Components of Developing a Business Strategy

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*Vision and Mission - the core building blocks of a solid business strategy.*

### Vision:

A company's vision is a brief statement, ideally no more than 1 sentence, that provides inspiration and outlines what you aspire for the business to be at a future time. While it is common to plan in 3–5 year time periods, for some businesses it may be useful to take a shorter or longer term vision.

For example, I was working with a successful small business where the current owners were in their 60s and were planning to transfer the business to the next generation within 5 years. We started the discussion looking out 20 years to create a long-term strategy that would live on beyond the transition. It was useful to bring everyone to a common vision.

Also as the word vision implies, it's often helpful to develop the vision using a simple visual context. Many years ago, Apple Computers created a great vision of "An Apple on Every Desk." This is a well-known and strong example because it is very simple. In just a few words, everyone in the company could see and understand the vision. Obviously as times change, a company's vision also must also evolve. Apple's new vision is "To make a contribution to the world by making tools for the mind that advance humankind."<sup>1</sup>

### **Aligning Strategy and Policies**

A financial institution's stated strategy was to target high net worth customers. However, the bank's policy was to limit personal lines of credit (LOC) for all customers, including their targeted wealthy client base, to \$5,000. This policy had both strategic and cost challenges and had been in place for years. From an expense standpoint the cost to approve or decline a \$50,000 LOC costs nearly the same as it does a \$5,000 LOC. But the bigger issue was the strategic issue. The bank targeted affluent to wealthy customers such as doctors, attorneys and business owners. The policy didn't work for these customers as the line of credit amount was too low for wealthy clients who were then forced to find another bank to meet their LOC needs. It cost the bank revenue, loyalty and customers.

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<sup>1</sup> [http://wiki.answers.com/Q/What\\_is\\_Apple%27s\\_vision\\_statement#ixzz1noVBbN00](http://wiki.answers.com/Q/What_is_Apple%27s_vision_statement#ixzz1noVBbN00)

## Mission:

A mission is simply stated, a company's reason for being. Where a vision is focused on the future, the mission is focused on current time period. The mission the "how" to achieving the vision of the company.

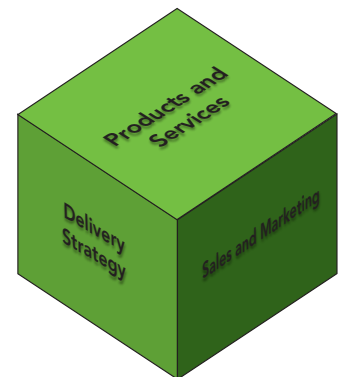
Continuing with Apple Computers as an example, Apple's mission provides specific language to how they will achieve their vision. Apple's mission is, "Apple is committed to bringing the best personal computing experience to students, educators, creative professionals and consumers around the world through its innovative hardware, software and Internet offerings." <sup>2</sup>

While vision and mission are typically the cornerstone of a business strategy, one must go even further and look at a broader view of the business to achieve the desired results. In addition to determining what the business will be in the future, it's important to consider the path to get the business to that destination.

## Developing a Strategy Cube

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A few years ago when helping a business with their strategy, I developed something I called the Strategy Cube. This tool enabled us to look at six key dimensions of the business while developing the strategies and actions which would lead to higher profitability.



### *Products and Services:*

One of the most critical elements to consider in building strategies is your product or service offerings. Consider your current capabilities as well as the future expansion opportunities that may exist. However, while this is a critically important part of a business, many entrepreneurs make the mistake of being enamored with the products and services they will offer and fail to spend enough time with other very important components of the business. For example, how they will win business and gain customers, how they will fund the business during start up, ensure a profitable business model and make capital investments to keep the business growing. Important considerations include:

- » Number of products and services
- » Characteristics, features, and functions of products and services
- » Breadth and depth of service offering
- » Product pricing

## *Sales and Marketing:*

### Marketing Strategy, Target Markets, and Market Segments:

To develop solid strategy, you need to define the universe of customers and prospects that you are hoping to attract. If you market your services Business-to-Business (B2B), consider which industries and size of businesses you want to appeal to. If you are in a company that serves consumers, consider if your business is serving a specific geographic area or targets a particular segment of the population. You also want to consider the profile of your current customers, and specifically that of your most profitable customers.

Once you've developed an understanding of target markets and customers, consider how you will reach them. Some common examples of marketing channels include:

- » Advertising: Online, Print, Radio, TV, etc.
- » Public relations & media
- » Plan for customer interactions (including in stores, offices, at call centers etc.)
- » Face to Face: networking groups, seminars, presentations
- » Location and physical presence

#### **Location Matters in Marketing Strategy**

A small business operated in a kiosk at a busy shopping mall. Business was steady and sales were strong enough to earn a decent second revenue stream for the owner. Then the owner saw an opportunity to reduce expenses and rent a cheaper but larger space on an out-of-the-way street. The owner thought the lower expenses would increase profitability and signed a multi-year lease. However, he quickly found out that he had not thought how to replace the foot traffic the Mall provided. Some loyal customers followed — but most did not. As business shrank, the owner was afraid to advertise as he was concerned the business didn't have the revenue to support advertising. It was a downward spiral. Without a source of customers, the business would fail. Location can be a very powerful marketing tool. Most large national franchises spend a lot of time finding a great location because they know it's difficult to replace great visibility with advertising. Without either, most retail businesses can't survive.

## Business Development:

For small entrepreneurial companies, this is often one of the most challenging elements. Most small business owners know how to provide the product or service for which they set up the business to deliver, but often lack experience in business development. They can fail to put together an effective plan on how they will win new business. Building a better mouse trap does not guarantee business success. Without effective methods to bring in new customers and have existing customers return, the business will soon fail.

Areas within business development may include:

- » Sales strategies and plans
- » Sale force or sales team strategy
- » Sales incentive compensation
- » Referral partners
- » Organic growth vs growth through acquisition

## *Delivery Strategy:*

How will your product or service be delivered? Delivery strategy is sometimes included as part of the marketing strategy. Whether you think of it separately or along with the marketing strategy depends in large part on the specifics of the business. With the rapid changes in technology, your product delivery is worth revisiting – even for existing businesses. Look at whether your existing delivery methods are the most convenient for the customer and the most efficient for the business.

Potential considerations include:

- » Physical location
- » Internet & social media strategies
- » Telephone communications
- » Hours of operation
- » Electronic vs in-person

## *Operational strategy*

There are many attributes directly related to your business operations that you need to consider when determining future strategies. These attributes can help you identify strengths and areas of opportunity.

While many operational strategy elements are unique to the individual business or industry, common elements to include include strategies related to the people involved in the business – such as hiring, training, employee retention, etc.

Some examples of these elements include:

- » Business infrastructure: property, plant and equipment, geographic location, etc.
- » Human capital/human resources: Employees and others serving and interacting with your customers
- » Training and development for employees and/or customers
- » Reward and compensation systems
- » Organizational structures
- » Business processes
- » Risk management

### *Financial Model and Profitability Planning*

It's easy to fall in love with a business idea. Many entrepreneurs get caught in the trap of believing their passion for what they do will be enough. They do not think carefully and realistically about what it will cost to develop the business financially. When planning, even established businesses often don't fully take into account a financial strategy which produces the desired results for a business.

When starting a business, it's important to be realistic about what it takes to get the business up and running and for the entrepreneur to consider the impact on their personal finances. For example, how will no income or even a loss over a period of time impact their overall finances? Do they have enough funding to properly invest in the business and marketing of the business?

Once a business is established, profitability remains a critical issue for many growth businesses. A cash flow plan often becomes a critical issue. In a profitable growth business, when cash flow becomes a bigger issue than just profitability, it may be time to consider investing in a part-time CFO. Think about bringing in someone who can help properly plan for the upcoming growth and the capital requirements to fund that growth.

In larger businesses, the challenge is not so much in developing financial plans or budgets. The challenge is to create the right partnership between the finance department and the business units to encourage the right investment strategies to fuel growth. And at the same time, creating monitoring and measuring systems which ensure promised returns actually occur at the anticipated expense level.



For larger businesses which grow through acquisition, there is another common pitfall. Often, they fail to plan for the impact the merger can have on very large projects. These projects are often impacted by unexpected starts and stops as scarce resources are reallocated to the merger of the day. The impact for these businesses is the promised return on investment is never realized. Furthermore, when restarting these projects, a new business case is often skipped when in fact it may be even more important to revisit given the changes of the recent merger.

### *Measurement Systems and Performance Tracking:*

“What gets measured gets done.” It is important to set up systems to track performance against your stated objectives at the outset. By understanding how you will measure performance, you will be gain better clarity into what is required to drive success.

Systems and tracking methods to consider:

- » Management scorecards
- » Management dashboards
- » Employee performance and measurement systems
- » Financial measurement systems including profitability systems and budget tracking systems

## Conclusion

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Every component must be aligned with the overall strategy and vision. There is no point in saying “our mission is to have happy, engaged employees delivering best-in-class service to customers” and then to not measure if that is happening. Likewise, to have the same mission and then to try to be the lowest cost provider would be inconsistent and would likely lead to failure. While this may seem obvious, I’ve been to companies where we find huge opportunities by simply aligning one or more of the elements to fit with the company’s overall strategy.

When the strategy is well thought out, effectively communicated, and aligned with business attributes, it can fuel rapid business growth and profitability.

## About ClarityFI

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Clarity FI is a financial business management consulting firm offering Strategic and Financial Consulting, Part-time / Time Sharing Chief Financial Officer (CFO) Services and Financial Dashboards. We help organizations understand financial decisions and mine information and data to chart the clearest path to success. We partner with management to optimize customer experience, optimize product pricing, reduce costs, and engage employees and customers to produce tangible, achievable results. The bottom line? We want to help you increase income, save costs, and watch your profits soar.

## About the Author

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Mr. David Wagstaff has twenty years of financial management and consulting experience, providing business insights, strategic financial analytics, and executive leadership.

He is the Managing Principal and Founder of Clarity FI, focusing on strategic financial management, CFO Services and financial dashboards, analysis and insights. He has over 20 years of experience working with companies that range from Large Fortune 100 businesses to entrepreneurial start-ups. Previously, Mr. Wagstaff served as a Managing Consultant, Senior Manager, VP of Enterprise Business Solutions, CTO and CFO. His corporate responsibilities have been well balanced with successful personal ventures.

Mr. Wagstaff earned his MBA from the University of Maryland, Smith School of Business in College Park, MD, with a concentration in Finance, Accounting and New Venture Creation. He earned his BS in Economics and Business Management from Ithaca College in Ithaca, NY. He is an outstanding member in his community as an active member of the social services organization having served on the Board of Directors and Executive Committee of the board at both Time Out Youth and Family Services of Montgomery County. He is also proud to have been a NJ Foster Parent.

He currently resides in Collingswood, New Jersey with his Partner. He enjoys hiking in the mountains, the beautiful scenery of nature, swimming, water and snow skiing and sailing.