

Chapter 3 – Stan, Strategy, and the Pretty Binders

SHOULDN'T STRATEGY HELP YOU AND NOT JUST GET IN THE WAY?

When I first started studying business strategy, I talked to a lot of people. These people all had different ideas of what business strategy is, what it does, and how you apply it. One thing I found really interesting was a group of people who are almost violently opposed to the idea of business strategy. These people had clearly been hurt before: hurt by promises that weren't kept, time that was wasted, or hopes that were raised, only to be dashed in the end. One such person I met was Stan.

Stan is a mid-level manager who has been working at the same machine shop for twenty years. In his field, he has done a lot and seen a lot. He is a real "salt of the earth" type person. When I started talking to him about business strategy he wanted me to keep my voice down. I asked him why. He said, "I don't want to go through *it* all over again." I asked him what "it" was. With a deep sigh and a roll of the eyes, he

told me about his experience with business strategy development. Stan explained the nonproductive pattern his organization goes through every time a senior manager gets excited about coming up with “the strategy” for the organization.

Stan said, “It goes like this. . . Things are going along fine when senior management gets it in their heads that we need to work on our strategy. This typically involves prep work at the shop, and then we usually go off-site for days or sometimes a week at a time. While all this is happening we are still expected to get our regular work done.

“At the end of the planning period we are all worn out, exhausted but hopeful that these new plans will do something for us. In the meantime, we have to catch up with all of our regular work.

“In the weeks that follow, the plans wind up sitting in pretty binders on shelves in a corner office. Other than keeping the shelves they are sitting on from floating away, these plans in pretty binders don’t appear to serve any useful function. Typically, it all nets out to be just a huge waste of time!”

NOTE TO READER:

Stan's lament is the same as many others. Strategic planning seems to be disconnected, a fad, un-implementable, a distraction, a waste of time and resources.

For strategic plans to be effective, they need to be anchored into the larger flow of the business.

The challenge for many people is that they don't know what a good strategic plan outcome looks like. The KSM method has proven time and time again to be successful at providing this larger anchoring context within which to establish effective plans.

As Stan and I talked about it, we determined that a key area where these pretty binders tended to fail was the issue of balance. In Stan's experience, these plans tended to just optimize the sections within the company, with little effort put toward figuring out how each of these sections were to best fit together. Time was not spent figuring how to best balance the sections together to optimize the total.

This meant that the company would push forward not as a unified whole, but as independent sections. And because each of the sections generated their goals independently, at times the initiatives within the company would be set up in mutually exclusive ways. In other words, because the goals were set up in a vacuum, when they were actually executed they didn't fit together well, or sometimes at all. Employees were often frustrated and left to wonder, "Why bother planning at all? It never seems to work."

One readily apparent example of this disconnect regularly occurred when the company would have motivational speakers come in to pump up the employees—to ensure that the employees understood that "the customer is our number one priority."

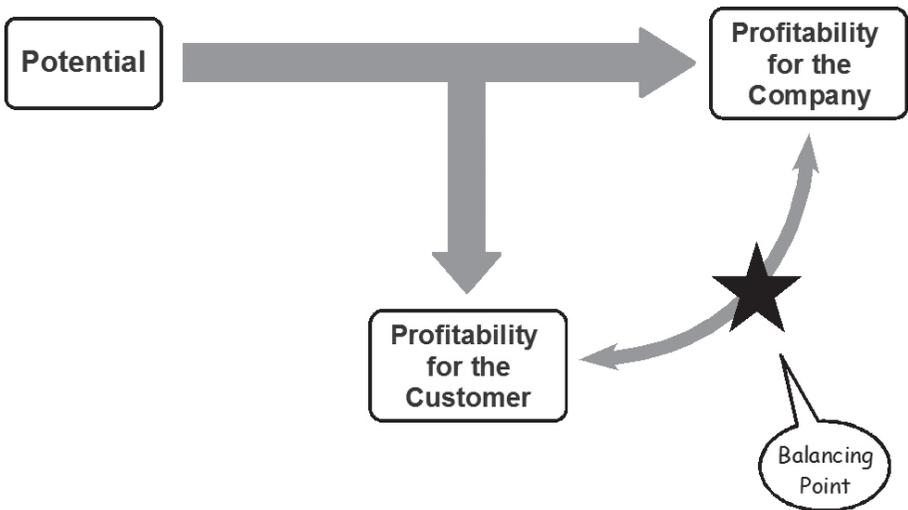
Meanwhile, later that same afternoon a mid-level manager would talk to employees about the shareholder meeting last month. During his speech, the manager would highlight that "our **shareholders** are our number one priority."

It is easy to see Stan's frustration. **How can both the customers and the shareholders be "the number one priority"?** In Stan's words, "It doesn't matter how loudly you say it or how often you say it. If you are going to insist that there are two number one priorities without

taking the time to talk about how we are going to balance these two number one priorities, then it will leave a lot of people confused as to what the *winning space* looks like.”

There needs to be a balance: a balance between the profitability delivered to the company and the value or the profitability delivered to the customer. This “balancing point” is shown in the illustration that follows.

KSM BALANCING POINT



The focus on the value delivered to the customer tends to resonate naturally with the marketing department. The focus on the value delivered to the company/shareholders tends to resonate naturally with the finance department. Unless a balancing focus point is articulated,

there can be turf wars between marketing and finance that will reduce the overall value generated. Stan's frustrations were born out of situations such as these: strategies that were either at cross-purposes to each other or, at times, even mutually exclusive. By only looking at the strategies individually and not how they fit together, these strategy defects can persist over time and cause people to think that strategy just doesn't work. Robert, a senior executive you will read about later in the book once stated that "I just don't get this *strategy* thing".

THE IMPORTANCE OF BALANCE

Business is about three things:

1. Recognizing what the market values
2. Generating what the market values
3. Splitting the value generated between the customer and the company

The value needs to be split, because if one group doesn't win, then neither group wins; one will walk away from the other and all of the value will be lost.

This junction between the customer and the company can be thought of as a business dam. It is in this area that purposeful decisions can be made that can balance the value delivered to the customer and

the company. The word balance doesn't necessarily mean equal. In monopolistic markets, the balancing point tends to be closer to the company. In highly-competitive markets, the balancing point tends to be closer to the customers. Either way, it is at this junction where actions can be taken to regulate the balance of value delivered to both parties.

In the words of one vice president, "This balancing point thing is great. Now we can focus on driving our ship forward, at the right point off in the distance. Before, by having two number one priorities, we were just rocking the ship from side to side—running from handrail to handrail. Now we share a common, *balanced* vision. We never had this before."

Things we learned: *By having a balanced point off in the distance to aim at, it is easier for people to integrate, coordinate, and communicate. People become energized. Without this balancing point, strategies often become a listing of mutually exclusive options that wind up draining the energy from the people who are just trying to get good work done.*

