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CHAPTER 4

Overview of the Business Strategy Process:

The need and comparison for Business Strategies in Large and Small Firms

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Overview of the Business Strategy

Process: The need and comparison for Business Strategies in Large and Small Firms

- ❑ The widely accepted theory of corporate strategic planning is simple: using a time horizon of several years, top management reassesses its current strategy by looking for opportunities and threats in the environment and by analyzing the company's resources to identify its strengths and weaknesses.
- ❑ Management may draw up several alternative strategic scenarios and appraise them against the long-term objectives of the organization. To begin implementing the selected strategy (or continue a revalidated one), management fleshes it out in terms of the actions to be taken in the near future.
- ❑ In smaller companies, strategic planning is a less formal, almost continuous process. The president and his handful of managers get together frequently to resolve strategic issues and outline their next steps.
- ❑ They need no elaborate, formalized planning system.
- ❑ Even in relatively large but undiversified corporations, the functional structure permits executives to evaluate strategic alternatives and their action implications on an ad hoc basis.
- ❑ The number of key executives involved in such decisions is usually small, and they are located close enough for frequent, casual get-togethers.

- ❑ Large, diversified corporations, however, offer a different setting for planning.
- ❑ Most of them use the product/market division form of organizational structure to permit decentralized decision making involving many responsibility-center managers.
- ❑ Because many managers must be involved in decisions requiring coordinated action, informal planning is almost impossible.
- ❑ However, the thought processes in undertaking planning (as described in the opening paragraph) are essentially the same whether the organization is large or small.

- ❑ Therefore, even executives whose corporate situation permits informal planning may find that our delineation of the process helps them clarify their thinking.
- ❑ To this end, formalizing the steps in the process requires an explanation of the purpose of each step.



How Does Planning in a Small Firm Compare to a Large Business?

- ❑ The benefits of planning are the same for large and small companies.
- ❑ Planning provides company management with a blueprint that defines what needs to be accomplished in the upcoming year.
- ❑ The planning process helps managers make difficult decisions about how best to deploy the capital, human resources and other assets the company has.
- ❑ The plan bridges the gap between where the company finds itself today and where its owners hope it will be in the future.



Small biz

Large biz

1. PURPOSE

- ❑ Many large companies take the planning process extremely seriously.
- ❑ These companies view effective planning as critical to maintaining growth and staying ahead of competitors.
- ❑ Some small companies unfortunately only prepare a business plan because potential investors request to read it before they consider putting money in the company.
- ❑ Other owners of small companies take the correct view that the annual planning process helps give them a competitive edge.



2. WHO'S INVOLVED

- ❑ In large companies, most managers or at least heads of departments are involved in the creation of the annual plan.
- ❑ Senior management may provide them with a list of company objectives for the upcoming year to use in developing their individual department budgets.
- ❑ Before implementation, the plan is approved by senior management and sometimes the board of directors.
- ❑ The plan in a small company may be the work of just the company owner, or the owner and several other key staff members.



3. INFORMATION AVAILABLE

- ❑ Large companies often have much more data available to assist with the planning process than small companies have.
- ❑ They may purchase market studies from research organizations and subscribe to database services that provide them with statistical information they need to prepare a financial forecast.
- ❑ Small companies often rely on their own primary research, such as studying trade publications, and talking to customers, suppliers and competitors.

Big Biz	vs	Small Biz
Margin 50-80+%		20-50%
Planned Discounting		Consistent Pricing
Profit Focused		Family/Employee Focused
Clearing Stock		Made to Order
		

4. COORDINATION OF BUSINESS UNITS

- ❑ Large companies use planning as a way of making sure objectives are communicated to all divisions and departments of the company, and coordinating resources that must be shared among these business units to accomplish the objectives.
- ❑ The plan serves as a guide so all departments know what is expected of them in the upcoming year.
- ❑ In a small company with a less complex organization structure, planning is used primarily to generate ideas how to increase sales and control expenses.



5. RESOURCE CONSTRAINTS

- ❑ Small and large businesses want to make every dollar they spend contribute to growth and profitability.
- ❑ In small companies these resource allocation decisions made during the planning process are particularly critical because there is little margin for error.
- ❑ A large company may be able to absorb the effect of a poor result, such as a new product not being accepted by consumers.
- ❑ Mistakes like this in small companies can cause them to go out of business.



6. FORMALITY

- ❑ Large company planning can be a formal process with a calendar that shows key deadlines for each department to submit their plans for consolidation.
- ❑ The planning process is usually done at the same time each year, often several months before the next year -- the year being forecast -- begins.
- ❑ Large companies often have a standardized format they use for the plan, developed by the financial planning staff.
- ❑ Small company planning can be as simple as creating forecasts using spreadsheet software, and writing down major goals for the next year.



5 BIG-BUSINESS STRATEGIES SMALL BUSINESS CAN USE

SUMMARY:

- ❑ Every small business wants to grow into a big one someday. Consider these five key growth strategies
- ❑ Eventually you want your small business to grow into a big business, right?
- ❑ If that's true, then learn which big-business growth strategies might work for you.
- ❑ Here are five growth strategies that small businesses should consider.
- ❑ Not every strategy will be right for your situation, but some of these might offer an opportunity for your business.



1. MARKET SEGMENTATION

- ❑ “Market segmentation” simply means picking a sub-set of the entire marketplace that you can organize your sales efforts around.
- ❑ Out of all the people in the world, who will you try to sell to?
- ❑ Most big businesses are good at carving out their corner of the market.
- ❑ Then they do whatever they can to own that space.

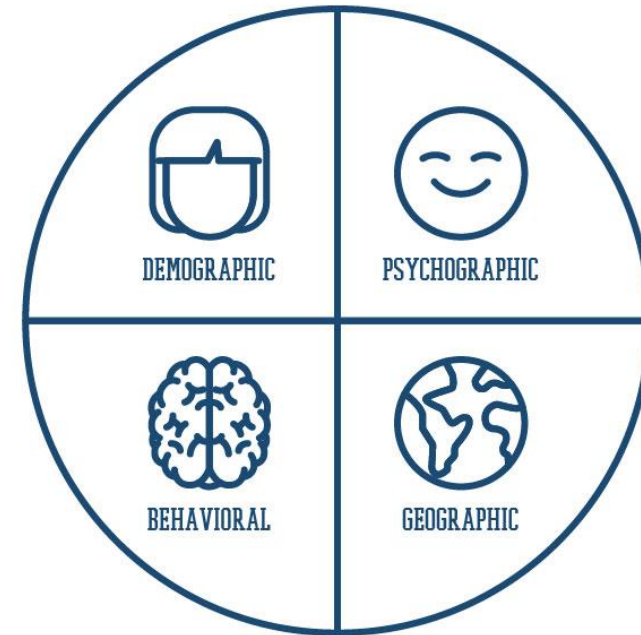


Market segmentation

- ❑ Red Bull gets its energy drinks in front of a young, adventurous crowd: its segment of the market.
- ❑ Have you wondered why Red Bull owns a Formula One racing team? That's why.
- ❑ Pepsi was losing its battle with Coca-Cola to become the heavyweight cola company.
- ❑ Instead of trying to beat Coke at its own game, Pepsi focused on a young, fun-loving demographic.
- ❑ Many Pepsi commercials show younger music stars, celebrities or other young status symbols.

- ❑ In other words, Pepsi stopped targeting the over-30 crowd and segmented its market.
- ❑ Coke is still the top dog, but thanks partially to market segmentation, Pepsi has built a very successful brand as well.
- ❑ Most small business owners would be happy with building the next Pepsi, but many are afraid to eliminate part of a potential market.
- ❑ It can seem scary, but you need to focus on your core customer if you want a clear path to growth.
- ❑ Segmenting your market comes down to making choices.
- ❑ Who will you serve? Who will you avoid? And which segment can you focus on to improve profitability?

4 Types of **MARKET SEGMENTATION**



2. LEVERAGING PARTNERSHIPS

- ❑ Some small business owners love to complain about how they can't compete with the vendor relationships that the big guys enjoy.
- ❑ It's true you can't "pay to play" like the Fortune 500s, but you can leverage partnerships in a savvy way.
- ❑ For example, let's say your small business makes tennis balls and you have a technology that makes the balls bounce better and last longer.
- ❑ You have a great product, but you don't have a manufacturing facility, a distribution channel or any of the other parts of the tennis-ball supply chain. All you have are great tennis balls.
- ❑ You may not be able to compete with the big industry players like Wilson, Penn or Prince for sponsorships or tournament partnerships, but you could partner with a tennis-ball factory and a distribution company.
- ❑ In fact, you could partner with them without having to pay a cent for your own factory or distribution. Just pay your partners a portion of the profit every time you sell a tennis ball.
- ❑ The result? You negotiate for mainstream production and distribution without paying the huge upfront cost of building a plant or hiring a shipping company.
- ❑ Now you can focus on selling tennis balls instead of worrying about making them.
- ❑ Big businesses can pay for partnerships up front. Small businesses have to negotiate for partnerships that pay per sale.

3. USE CHECKLISTS

- ❑ Big businesses have massive facilities, complex supply chains and large equipment.
 - ❑ Managing the day-to-day operations in these environments is too complex for one person. There are too many variables to track.
 - ❑ Guess what? Small businesses are the same way.
 - ❑ Small business owners have to wear many hats.
 - ❑ If you don't hold yourself accountable and remind yourself to do something that "brings home the bacon," then it's easy to get caught up doing things that aren't essential.
- ❑ In the rush of a normal day, it's also easy to forget to do a critical task.
 - ❑ Take a page from big business and develop process lists or checklists for specific tasks and jobs.
 - ❑ Give yourself a guide to success and a reminder to do the essentials each day.



4. ACQUISITIONS

- ❑ Perhaps the primary way that most big businesses grow is through acquisitions.
- ❑ Before you think I'm off my rocker by suggesting this move for small businesses, let me explain.
- ❑ First, acquisitions are tough. You can easily break the bank with one bad purchase.
- ❑ That said, acquisitions can be a massive source of profit and a means to growth if you make a few key moves.
- ❑ You know what's a good buy in your industry.
- ❑ Follow tip No. 3 and keep to a specific list of characteristics that you're looking for.
- ❑ Don't let emotion or ego play a role in a major purchase. Stick to the checklist.

- ❑ Secondly, do you have the budget to buy up everyone in the industry?
- ❑ Probably not. I'm not suggesting that you buy something you can't afford.
- ❑ But you can afford some businesses, especially those that you can improve.
- ❑ Don't dismiss acquisitions just because you're small.



5. BECOME A LEADER IN THE INDUSTRY

- ❑ Big businesses often make their name by leading an industry.
 - ❑ They make moves when other businesses sit by the wayside.
 - ❑ I was recently talking with the employees of a large distribution company that wants to do business in China.
 - ❑ There's just one problem: The distribution company ships products for other companies and those businesses don't trust the distribution channels in China yet.
 - ❑ As a result, the distribution company isn't selling in that region.
- ❑ If there are no products to ship to an area, the company doesn't set up distribution in that area.
 - ❑ But if there's no reliable distribution network, nobody ships products.
 - ❑ It becomes a chicken or egg problem where neither side wants to move first.



Become a leader in the Industry - cont

- ☐ So what does this company do? They say, "We know you don't like the distribution there, so we're going to fix it."
- ☐ Then, you can give us all of your business in China."
- ☐ Is it a bold move? Yes.
- ☐ Is it an expensive move? Yes.
- ☐ Is anyone else currently doing it? No.
- ☐ Does that mean that there is a huge opportunity for growth? Yes.
- ☐ What's the lesson for small businesses?
- ☐ Don't be afraid to solve the hard problems that everyone else avoids. There is a lot of money to be made when you're the first person to fix something.



7 GROWTH STRATEGIES USED BY THE LARGE AND SUCCESSFUL COMPANIES

1. USE A GROWTH STRATEGY TEMPLATE (RECOMMENDED TOOL)

- ☐ Don't hit the ground running without planning out and documenting the steps for your growth strategy.
- ☐ We recommend [downloading this free Growth Strategy Template](#) and working off the included section prompts to outline your intended process for growth in your organization.



2. CHOOSE YOUR TARGETED AREA OF GROWTH.

- ☐ It's great that you want to grow your business, but what *exactly* do you want to grow?
- ☐ Your business growth plan should hone in on **specific** areas of growth.
- ☐ Common focuses of strategic growth initiatives might include:
 - ☐ Growth in employee headcount.
 - ☐ Expansion of current office, retail, and/or warehouse space.
 - ☐ Addition of new locations or branches of your business.
 - ☐ Addition of new product(s) and/or service(s).
 - ☐ Expanding purchase locations (i.e. selling in new stores or launching an online store).
 - ☐ Growth in revenue and/or profit.
 - ☐ Growth of customer base and/or customer acquisition rate.
 - ☐ It's possible that your growth plan will encompass multiple of the initiatives outlined above, which makes sense – the best growth is not in a vacuum.
 - ☐ For example, growing your unit sales will result in a growth in revenue, and possibly additional locations and headcount to support the increased sales.

3. CONDUCT MARKET AND INDUSTRY RESEARCH.

- ❑ After you've chosen what you want to grow, you'll need to justify why you want to grow in this area (and if growth is even possible).
- ❑ Conducting research on the state of your industry is the best way to determine if your desired growth is both necessary and feasible.
- ❑ Examples could include running surveys and focus groups with existing and potential customers or digging into existing industry research.



4. SET GROWTH GOALS.

- ❑ Once you've determined **what** you're growing and **why** you're growing, the next step is to determine **how much** you'll be growing.
- ❑ These goals should be based on your endgame aspirations of where you ideally want your organization to be, but they should also be achievable and realistic – which is why setting a goal based on industry research is so valuable.
- ❑ Lastly, take the steps to quantify your goals in terms of metrics and timeline. Aiming to "grow sales by 30% quarter-over-quarter for the next three years" is much clearer than "increasing sales."



5. PLAN YOUR COURSE OF ACTION.

- ❑ Next, outline how you'll achieve your growth goals with a detailed growth strategy.
- ❑ Again – we suggest writing out a detailed growth strategy plan to gain the understanding and buy-in of your team.
- ❑ This action plan should contain a list of action items, deadlines, teams or persons responsible, and resources for attaining your growth goal.

Growth Action Plan

This section will explain how you're growing by outlining the project's key tasks and responsible parties.

Timeline

In the table below, outline which tasks are required to be done – and by when they must be complete – in order to achieve your desired level of growth.

Due Date	Task	Task Owner	Notes
<i>When is the task due?</i>	<i>What is the task?</i>	<i>Who is responsible for completing it?</i>	<i>Does the task require an explanation or external link?</i>

Growth Team

Provide a list of parties that are involved with this growth project.

Name	Team	Role in Project	Email Address

6. DETERMINE YOUR GROWTH TOOLS AND REQUIREMENTS.

- ❑ The last step before acting on your plan is determining any requirements your team will need through the process.
- ❑ These are specific resources that will help you meet your growth goals faster and with more accuracy.
- ❑ Examples might include:
- ❑ **Funding:** Organizations may need a capital investment or an internal budget allocation to see this project through.

- ❑ **Tools & Software:** Consider what technological resources may be needed to expedite and/or gain insights from the growth process.
- ❑ **Services:** Growth may be better achieved with the help of consultants, designers, or planners in a specific field.



7. EXECUTE YOUR PLAN.

- ❑ With all of your planning, resourcing, and goal-setting complete, you're now ready to execute your company growth plan and deliver results for the business.
- ❑ Throughout this time, make sure you're holding your stakeholders accountable, keeping the line of communication open, and comparing initial results to your forecasted growth goals to see if your projected results are still achievable or if anything needs to be adjusted.



END OF
CHAPTER 4

THANK YOU