

CONDITION-DRIVEN STRATEGIC EXECUTION FOR SMEs

results in congruent, implementable actions plans
incorporating an evaluation of the role of innovation;
the key to growth, profit and sustainability

White & Partners Ltd.

CONDITION-DRIVEN STRATEGIC EXECUTION

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Three steps to developing a practical,
implementable, strategy for SMEs

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Key Components of Condition-Driven Strategic Execution

- A full understanding of competitors' strategies, strengths and weaknesses and potential developments
- The corporation's spectrum of innovation compared to the competition
- Congruency checks to rigorously integrate actions with strategic direction
- Risk assessment related to change

Step One

Establishing SME's Strategic Condition

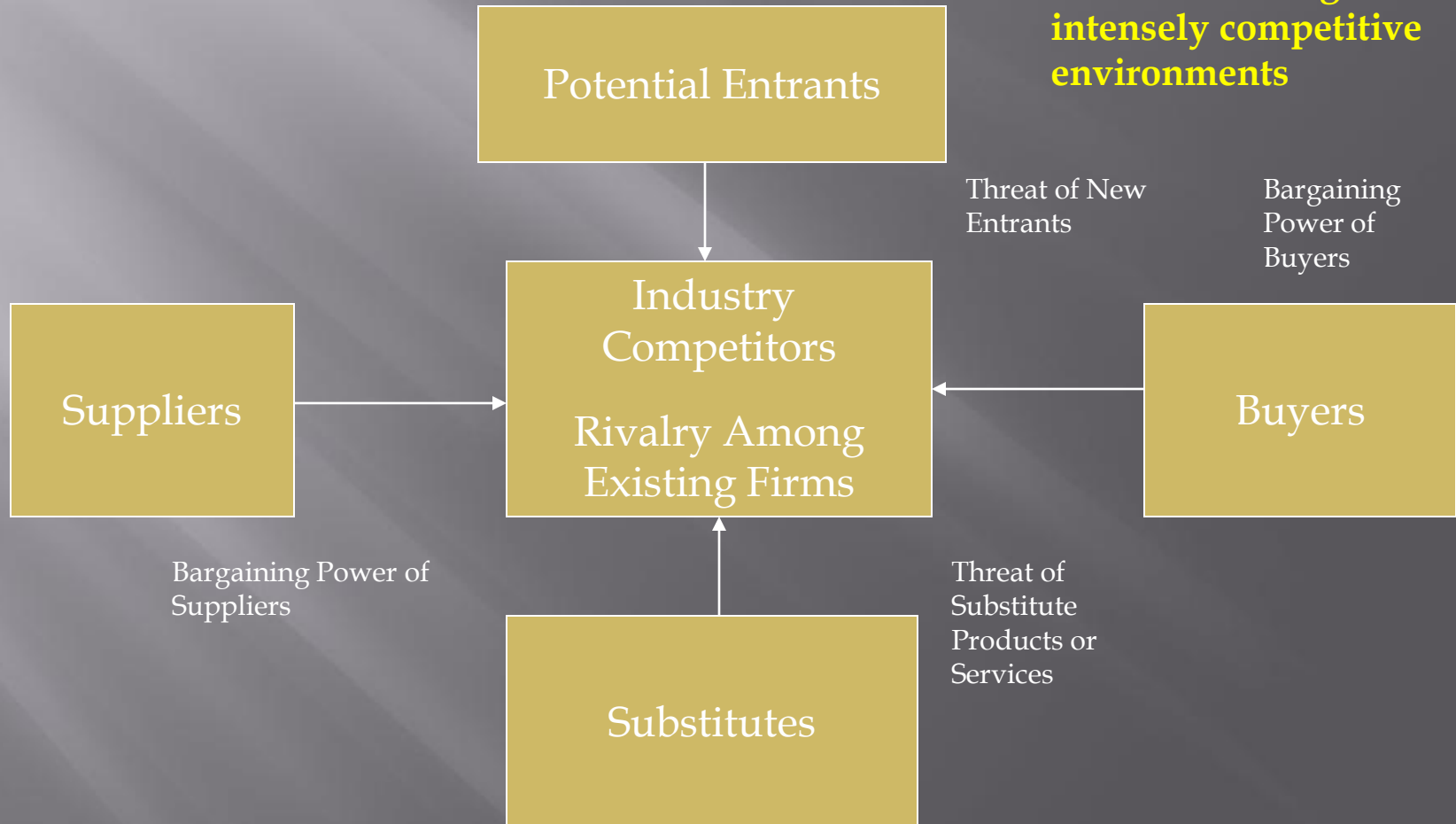
Industry Definition and Description by Business Segment

- ▣ Size of industry
- ▣ Growth over time
- ▣ Key influences on industry growth
- ▣ Competition
- ▣ Organizational nature of the competition
- ▣ Product line concept
- ▣ Basis of competition
- ▣ Barriers to entry
- ▣ Facilities factors
- ▣ Financial operating characteristics
- ▣ Role of technology
- ▣ Constraints
- ▣ Price trends
- ▣ Sales terms and accounts receivable

Competitive Intensity and Rivalry

Courtesy of Michael E. Porter, Competitive Strategy

Risk is much higher in intensely competitive environments



SWOT analysis

- ▣ Strengths
- ▣ Weaknesses
- ▣ Opportunities
- ▣ Threats

Dynamics of innovation in the industry.

Innovation engagement?

Industry/market/customer-centric 'Innovation interest' with minimal risk

Business process
continuous
improvement

Product line
extensions

New products

New business
models

Technology 'Innovation interest' with nominal risk

'Innovation interest' in common-use technologies to keep up to date.

'Innovation interest' in a defined market in order to differentiate product/service.

'Innovation interest' in emerging technologies.

'Innovation interest' in research

R&D 'Innovation interest' with
high risk

Applied Science/

Fundamental science

The Spectrum of innovation at Starbucks. An Example.

Starbucks had made the point that it wishes to be the 'coffee authority', meaning that it needs to have, at all times, a definitive and deep knowledge - know how - of the complete supply chain for coffee. The company needs to be the best in the business.

Roasting and processing coffee is at the heart of the technology of Starbucks business.

There is both a science component and much art associated with the process of making an exceptional brew. The combination of the science and the art is the 'know how' of the business and this is what Starbucks has brought to the market along with effective sourcing and a flair for retail marketing. Basic to the success of Starbucks is that it is, in the minds of millions of customers, a good tasting brew; and better than most!

Industry/market/customer-centric 'Innovation interest' with minimal risk

- Business process continuous improvement
- Product line extensions
- New products
- New business models

Technology 'Innovation interest' with nominal risk

'Innovation interest' in common-use technologies to keep up to date.

'Innovation interest' in a defined market in order to differentiate product/service.

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'Innovation interest' in research

R&D 'Innovation interest' with high risk

Applied Science/

Fundamental science

The Spectrum of Innovation at Starbucks

Starbucks Innovation Profile

Type of Innovation	Evidence of Innovation by Type of Innovation	Comment
Science		
Fundamental Science	None	Not expected in this industry
Applied Science	VIA development based on the chemistry of 'freeze-dried' technology/ Roast curve relationship	Unusual depth for this industry
Technology		
Research	R&D spending as a % of sales/ Intent to be the 'coffee authority': maintaining a watchful eye on developments/'Know how'	Coffee is in Starbucks DNA
Emerging technologies	?	Unclear
Differentiating technologies	Quality of product/ R&D to develop less expensive soluble powders [eg. VIA]/ Sandwiches without a cheese smell/ Ethically-sourced coffee/ Merging coffee with a 'place'	Combination of 'technologies' provides the differentiation
Common-use technologies	Loyalty program/ Clover equipment/ Mastrena equipment to improve quality, speed, and view	Keeping up to date with technology
New business models	Store design/ Integrating coffee roasting with sales and with both bean and drink	Fundamental shifts in the industry
New products	Store design [seating, wi-fi, comfort/'Street-named' stores/ Coffee quality and price/ Pike Place Roast/ Frappuccino/ Coffee – 'bold'/ Sandwiches/ Branding realization [eg. Digital Ventures]/ VIA/ Renaming coffee to designate taste rather than bean	Probably the strongest Starbucks type of innovation
Product extensions	Store openings/ Coffee variations/ Sandwich selections/ Coffee but in out-of-store locations/ Limited release reserve coffees	This type of innovation has propelled growth
Business/continuous improvement	IT/ In-store information systems/ Mastrena = speed	Came as an afterthought after Starbucks decline

Innovation refers to the experimentation and adoption of new ideas of all kinds.
 Inherent in an idea is always the notion of change; grand or small, and the assumption of risk.
 Without risk, there is no innovation!
 The term 'innovation interest' is used to note that not all innovations are physical but can be emotional and may at times be simply thoughts which do not result, for many reasons, in actions or new products/services.

Basis of competition – Key Success Factors

Relative competitive position

Notes:

In some cases it may be useful to provide relative weights to each of the bases.

If there is likely to be a shift to a different bases in the future, a second set of bases should be developed.

Basis of Competition

Low cost manufacturing

Response time to customer order

Product Quality

Innovative capacity

Product functionality

Sales force training

Overall result

	Company A	Company B	Company C
Low cost manufacturing	+	0	-
Response time to customer order	--	+	++
Product Quality	0	++	-
Innovative capacity	++	+	-
Product functionality	-	-	-
Sales force training	-	+	--
Overall result	-1	+4	-3

Your company?

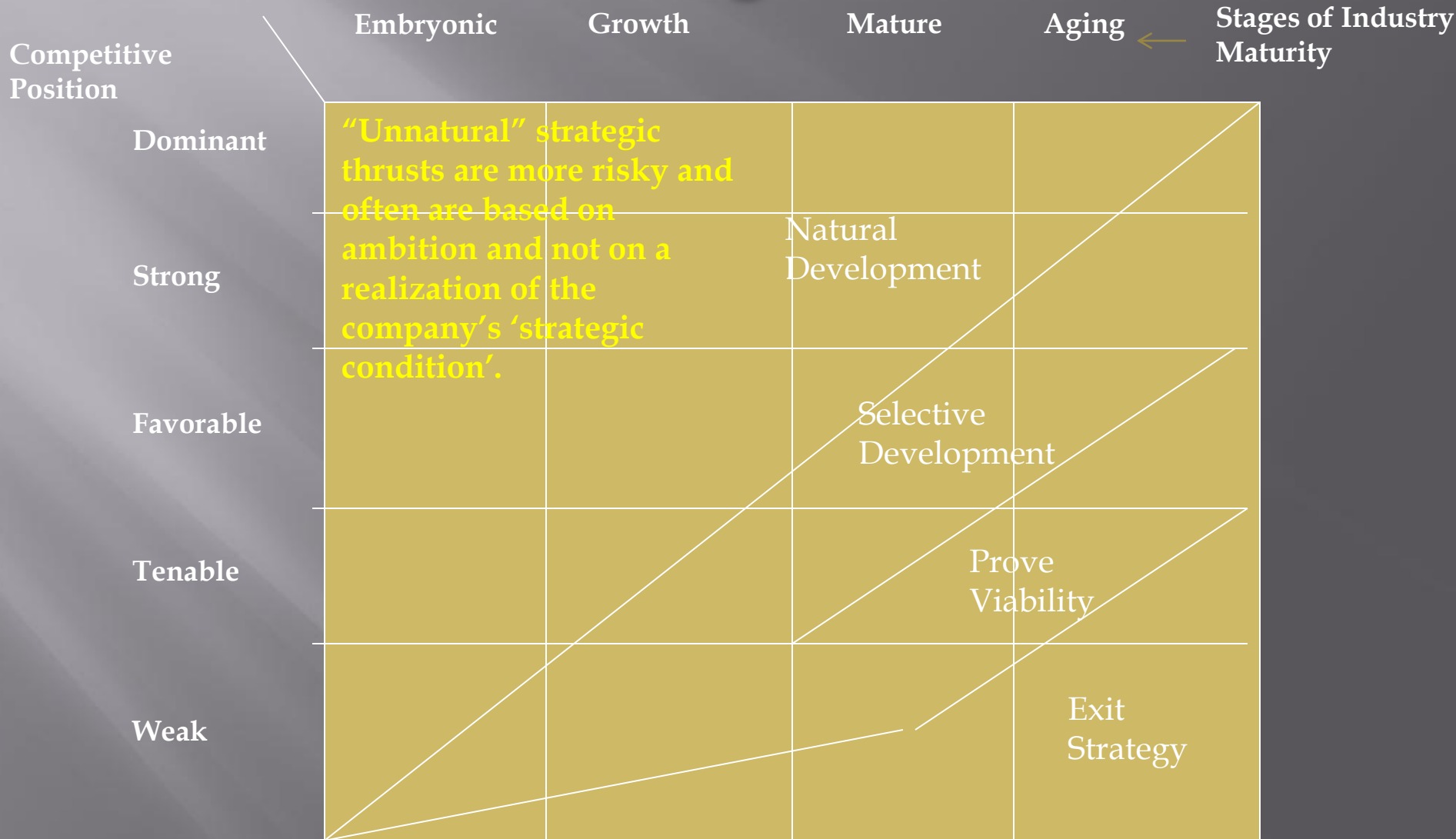
Step Two

Selecting a Strategy

Evaluating alternate strategies for the business unit, leading to the preparation of action plans



'Natural' strategic option zones based on the SME's strategic condition



Selecting a Strategy

- ▣ 1. Determine the company's current condition
- ▣ 2. Examine a range of strategic options and short list a small number
- ▣ 3. Evaluate the short list of strategic options and select one or two for further development
- ▣ 4. Describe more fully the selected option and its implications. Check the options congruence with overall corporate goals
- ▣ 5. Develop action plans which will make it happen!

Risk Analysis

Based on many elements

Risk is inherent in each assumption made, implicit, or not made in the development of a strategy.

Risk derives from industry maturity and competitive position but other elements come into play.

Elements of Risk

Low

Medium

High

Level of Risk

Industry

Maturity

Competitive Position

Strategy

Assumptions

Past performance of the unit

Past performance of management

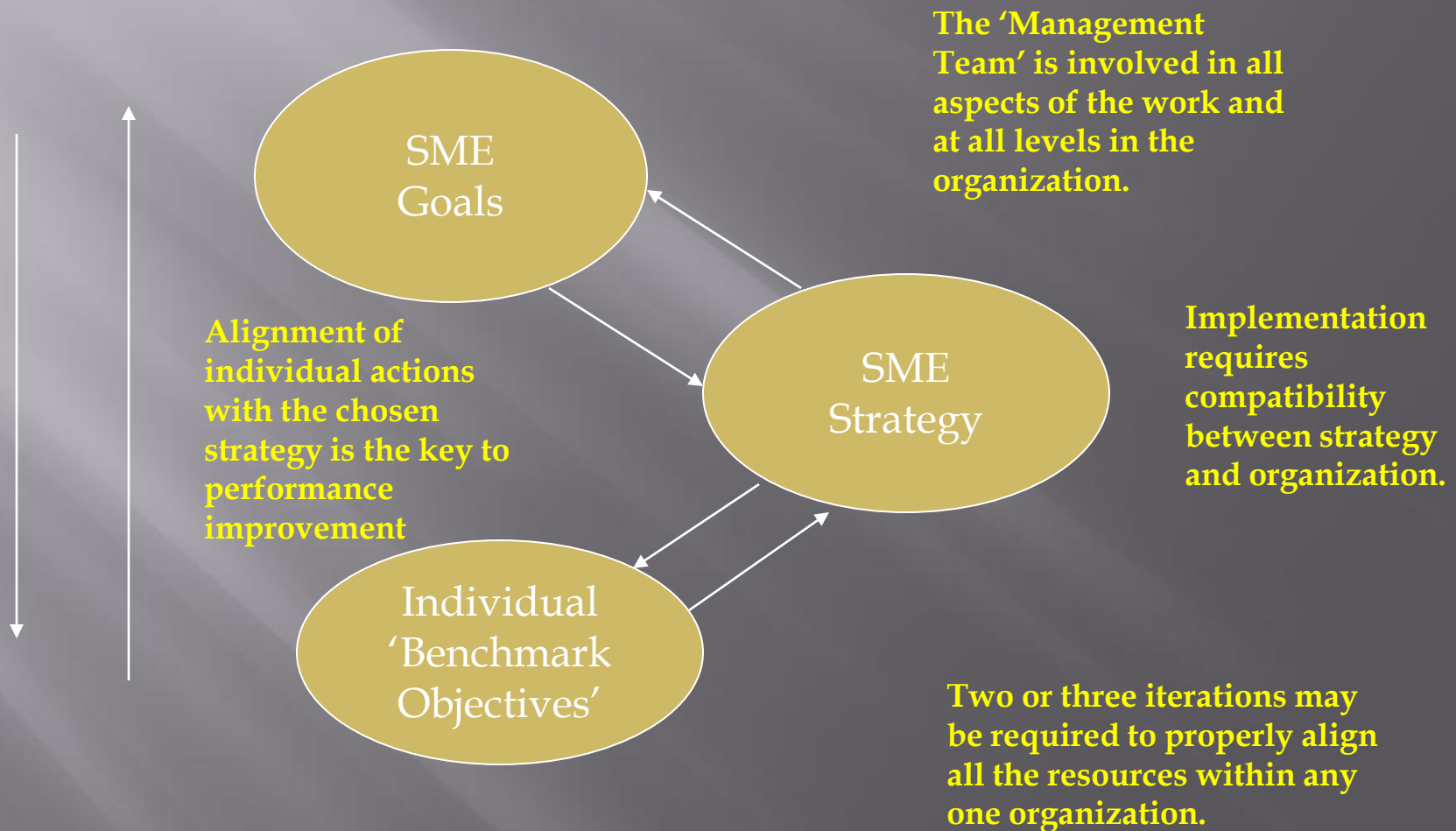
Level of future performance required

Overall Risk

Step Three

Translating Strategy into Action at the Individual Level

This approach integrates 3 levels



The implementation of action plans requires a consideration of many factors



Key Results Areas

The following questions aim at identifying, for each position, significant key result 'areas'

- ▣ In what areas would improved performance significantly and favorably affect company performance?
- ▣ In what areas could poor performance do damage to the company?
- ▣ Examples of 'statements'
 - to achieve the budgeted level of sales
 - to control scrap level
 - to ensure that resource capacity is fully utilized

'Key Result Area'

Six topics to address in the development of a KRA.

- ▣ A. Main Purpose of Job and Congruence with Strategy
- ▣ B. Position in the Organization
- ▣ C. Scope of the Job
- ▣ D. Key Tasks
 - Delivery
 - Output
 - Costs
 - Use of Resources
 - Quality
- ▣ E. Personnel Activities
- ▣ F. Limits of Authority

Methodology

- ▣ Background research on industry and competition
- ▣ SME provided data
- ▣ External interviews as required
- ▣ Internal interviews
- ▣ Workshops for each of the three steps
- ▣ Board consultation as required
- ▣ Implementation involvement as required

Fully interactive