

Are You Prepared to Succeed in Business?

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In today's competitive market, small businesses must deal with new competitors, ever changing markets, price sensitivity, and cash flow issues — flying by the seat of your pants just doesn't work anymore. Do you desire to lead your business to growth and expansion? Rapidly changing technologies, instantaneous worldwide communications, and strong customer preferences require rethinking of how we manage a business. Technologies that lead to product life cycles of 18 to 36 months, and the necessity to focus on true customer desires affect most businesses either directly or indirectly. In order to meet dynamic changes in business conditions and customer needs, an organization must be agile and responsive to these changes.

The long-term success of a business is dependent on its long-term strategies. It has been said that a company can overcome inefficient use of internal resources if its basic strategy is brilliant, but not likely to get by with the wrong strategies even with excellent production and distribution capabilities.

Past success formulas might not work in the future. Therefore, a company must periodically reexamine its situation as objectively as possible and determine the best course of action for the future in order to meet its goals and objectives.

Many companies get stalled on a flat growth plateau. Strategic planning methods can be used to realistically develop and evaluate growth options. Management needs to address the issues that affect long term growth, and position the company for outstanding performance. In order to be effective, planning should become an integral part of the business' culture and needs to be a continuous process.

I AM AN ENTREPRENEUR, NOT A PLANNER!

Many entrepreneurs bemoan planning as an unproductive activity for which they have neither the time nor skills. The shelves are stacked with books decrying planning as a constraining exercise that keeps entrepreneurs from doing what they do best — take the initiative, create products, open new markets, manage "on the fly." If most small businesses succeeded managing "on the fly," debating over the necessity of strategic planning would not be an issue. Unfortunately though, 75

percent of small businesses fail within the first five years, and research has shown that many failures are attributed to a lack of direction and limited knowledge of the market, competitors, and the industry. Strategic planning brings these factors to the forefront prior to implementation, allowing the business owner to evaluate possible roadblocks, seize opportunities, and track industry and market trends.

Michael Wert, CEO of DiMark, Inc., a Forbes 200 database marketing company based in Langhorne, Pa., realized early on the importance of articulating goals and strategic planning. "Initially, we did not use strategic planning as a tool to build the business. After four to five years, when the company had grown to 20 people and approximately \$5 million in revenues, it became a core aspect of DiMark ... We applied a highly formalized process. We now interview clients and employees, and employ a visualization structure one to five years ahead, and use an outside facilitator ... Most prominently, we employ GAP Analysis (analyze the "gaps" in the marketplace) to better understand the driving forces in our business ... We have highly articulated goals from financial and strategic perspectives ... Our mission statement is always under scrutiny ... (In addition), visualizing the organizational structure beforehand is critical, from now to five years from today."

BUSINESS PLANNING VS. STRATEGIC PLANNING

How should you plan strategically? First of all, a distinction must be made. Business planning and strategic planning are not one and the same. A good strategic plan will cover all areas of business, focusing on:

- Why a particular market, product, or service makes sense.
- How a business might unfold and how its industry will react to it.

A good business plan will incorporate strategic thinking and planning emphasizing:

- What the business will do.
- How and when the business will deploy resources to generate revenues and profits.

THE ABCS OF STRATEGIC PLANNING

Let's agree that strategic planning is a good thing, and that the pros far outweigh the work and time expense. Now how does an entrepreneur begin to craft a strategic plan? The steps are not only sequential, but circular; i.e., there is considerable trial and error involved. Your firm's mission, objectives, and alternative actions should be altered and reconsidered according to the outcome of your initial strategy. It's a process of constant change. As Steve Wiggins, founder and CEO of Oxford Health Plans, one of the fastest growing HMOs in the nation, said in *Fortune* (March 21, 1994), "If you're going to succeed (in business today), you have to figure out a way to think about change."

Let's take a look at the three most critical steps of the strategic plan — the Mission Statement, Objectives, and Analyses.

MISSION STATEMENT

The mission statement of a firm is its reason for being, its lifeblood, its passion. A mission should not be confused with an objective. It is the purpose for which the firm conducts business. Try to conduct a business without a mission, and watch your more focused and purposeful competition pass you by.

Although you might succeed without an explicit mission, the most successful companies know that a mission statement from one sentence to a paragraph in length, with a couple of key points, helps them to embody excellence in all that they do.

"When it absolutely, positively, has to be there overnight ... " Federal Express' motto has proven to be not only a slogan, but a way of life. FedEx's employees accept its mission as a sacred covenant. Reliability and quality come from a shared purpose. A good mission statement codifies a company's purpose not only for the employees but customers, suppliers, financiers, and other interested parties.

What comprises a good mission statement? Here a few guidelines to follow:

- **Keep it short.** A mission should not be a treatise, but a few key thoughts for employees to embrace and remember you by.
- **Don't be vague.** "A leader in the automotive parts business" isn't clear enough.

Rather "the most consistent top quality manufacturer of automotive parts to the luxury car market" focuses on specific attributes (consistency, top quality) and target or niche markets (automotive parts for luxury cars).

- **It's accessible, it's everywhere.** Put the mission statement in your literature, on your packaging, on the conference room wall. Insert it into conversation. It's just as important for young and emerging growth companies to do this as it is corporate behemoths.

OBJECTIVES

Objectives are goals or measures by which the business will be judged. Chances are high that someone will judge your company based on its capacity and track record for meeting your stated objectives. The larger you get, the more people will judge you: bankers, investors, employees, customers, and competitors. They will judge you not only on your past performance, but on how seriously you take your goals today.

What are the right objectives to have? Objectives vary widely based on a company's industry, strengths and weaknesses, stage of development, and other factors. However, all objectives need to be:

- **Measurable.** Whether it's sales growth, return on investment or something else, measures should be used that reflect the company's goals. For example, Company X's objective is to increase revenues in 1996 by 10 percent over 1995 revenues.
- **Quantifiable.** The company should be able to quantify its progress according to the above measures on a regular basis. For example, Company X's objective is to increase revenues in 1996 by obtaining five new Fortune 100 clients at a sale of \$100,000 per client. Obtaining this goal will ensure a 10 percent revenue increase for 1996.
- **Consistent.** Objectives should not conflict. For instance, an early stage consumer products company probably cannot team sales growth with high profit margin as objectives because a large investment in equipment and advertising and costs of differentiation might preclude high profits as sales increase. Conflicting goals cause frustration and loss of focus.

By defining goals and objectives, a company can then analyze the reasons why goals were met or not. If Company X did not reach its goal of obtaining five new corporate clients at \$100,000 per client, they can look at the sales process or product line and determine where the problem lies. Once the issue is identified, strategies can be implemented to ensure success the next time. However, if Company X never identified its goals and measurement tactics, it would not know where the problem occurred or what could be done to fix it.

THE ANALYSES — INTERNAL AND EXTERNAL

Once the mission and objectives have been developed, the entrepreneur should engage in analyses of internal and external factors affecting the company's success. The goal is to help the entrepreneur find and sustain one or more competitive advantages in its industry. Here are more analytical tools that serve as a useful guide.

"SWOT" (STRENGTHS/WEAKNESSES/OPPORTUNITIES/THREATS) ANALYSIS

A critical first step in evaluating your business plans is through "SWOT" Analysis. According to William Harrington, Director of Pennsylvania's Ben Franklin Technology Partnerships, entrepreneurs frequently focus on their personal and products' assets, and ignore the competitive landscape. He recommends the following "SWOT" approach for his clients.

Strengths

Ask yourself the following:

- What are the strengths of my product or service?
- Can we differentiate ourselves from the competition in the minds of our customers?
- Do we have the internal resources, personnel, capital, technology, and outside support to pull our strategy off?
- What special attributes does the management team bring to the table?

Weaknesses

Be honest about your weaknesses. Where are the holes in your grand design? The trick is not to ignore or hide weaknesses, but to manage and improve them. For instance, you may be a high quality service company, but not deliver your products as rapidly as your competition. Work on your delivery time, and don't promise quick turnarounds in the meantime! Most important, don't try to be all things to all customers. For example, Compaq Computer positioned itself as the highest quality, most reliable microcomputer manufacturer, but not necessarily the cheapest. Later in the 1980's, Compaq's volume enabled it to become a low cost producer, while it continued to enjoy a reputation for quality.

Opportunities

What opportunities does your product or service, organization, and personnel allow you? Successful entrepreneurs keep an eye out for trends in the marketplace, new products, and changes among its competitors. Successful companies also assess changes in "PEST," the Political, Economic, Social, and Technological environments. For example:

- What new regulations are in Congress?
- What economic factors affect demand for your product?
- What social trends are changing tastes and consumption trends?
- Will technology render your product obsolete or more appealing? (e.g., human-operated response systems.)

Think opportunities, opportunities, opportunities. Think about what some of the major companies did to take advantage of opportunities.

McDonald's launched its McLean burger, acknowledging the "healthy eaters" trend. Reebok and Nike both aggressively began marketing athletic sneakers to active women after research showed that women purchase more athletic shoes annually than men. Bell Atlantic reduced costs by reducing its workforce and taking advantage of high-technology capabilities by utilizing automated directory attendants.

Threats

There are threats lurking everywhere. They come from within and without. Ask yourself constantly, "Who or what could adversely affect my business?" The common mistakes entrepreneurs make as they grow, usually to between \$5 million and \$20 million in revenues are:

1. They don't realize they are attracting attention from competitors, often larger ones.
2. They grow beyond their personal capabilities.
3. They become bored as the initial challenge is conquered.

Take a look at Domino's Pizza and Pizza Hut. Dominos' competitive edge has always been delivery. They don't boast great pizza or eat-in locations, just quick delivery. To gain more market share, Pizza Hut simply added delivery to their high quality offerings, and in many areas are taking market share from Domino's.

COMPETITIVE ANALYSIS

Once you know what your strengths are, it's time to find out how you can apply them to obtain market share. First you need to know who your competitors are, and what services and benefits they are providing to the market. Once identified, you can then position your product or service in a way that will differentiate your company from the rest.

Al Ries and Jack Trout in their best seller, *Positioning — The Battle for Your Mind*, suggest that positioning your product in the buyer's psyche is the most important way to achieve brand awareness and dislodge the competition. "Too many companies embark on marketing and advertising as if competition doesn't exist; they advertise in a vacuum and are disappointed when their strategies don't work. The mind has no room for the 'new and different' unless it's related to the old. 'Off-track betting', 'lead-free gasoline,' and 'sugar free soda' are good examples of how new concepts can be positioned against old ones ... Position your company in the minds of your prospects as a major player in a certain area of business."

Identify your top three competitors that offer the same or similar products or services to your target market. Analyze their strategies regarding customer service, pricing, quality, operations, resources, and personnel. Are they lacking in any one of the above areas? Is there an opportunity for your company to step in and satisfy a need?

Dennis Garrett, president of Quality Care Medical, a Baltimore-based distributor of medical and surgical products, saw an opportunity that he found during his strategic planning process that his competitors were not fulfilling. "In 1991, my partner, who was previously employed at Johnson & Johnson, and I, who worked at FedEx, noticed that there wasn't a regional distributor of medical and surgical products from New

Jersey to South Carolina, and that national distribution doesn't work very well at the local level ... We spent 18 months developing a business plan and another six months raising \$3 million from a manufacturing investment group ... The next year (1994), we raised an additional \$10 million ... Off and running, we now meet quarterly to adjust the business plan according to the marketplace. For instance, as hospitals started contracting with clinics and small physician groups to administer health care, we responded with smaller trucks and more overnight shipments to fulfill the distribution. This is particularly important since hospitals allow supply pricing based on a capitation formula, and any cost savings beyond that are shared."

COMPETITIVE ADVANTAGE — FINDING YOUR NICHE

There are two primary sources for your company to achieve a competitive advantage: differentiation and cost. Startup companies, with rare exceptions, cannot be low cost producers, so they must pursue a differentiation strategy. Most successful large companies adopt the same strategy. Look at how others have successfully differentiated their companies:

- Superior quality (e.g., Mercedes, Intel).
- Superior customer service (e.g., Wal-Mart).
- More rapid delivery (e.g., FedEx).
- More reliable delivery (e.g., AT&T).
- Consistent quality (e.g., McDonald's, Xerox).
- Branding and brand advertising (e.g., Nike, Polo).
- Special product attributes (e.g., Prince tennis rackets, Calloway and Ping golf clubs).

Although each of these companies has achieved great success, they were initially built by separating themselves from the pack and serving particular target markets. Differentiate your company by asking, "What service or benefit can I offer my customers that my competitors can't? What market can I target that my competitors are not?"

There is a successful management training firm in Philadelphia that was vying for the same market that every other management training company was soliciting — Fortune 100 companies. Each of the 22 training companies was offering the same programs, and they are all very good at what they do. Company Z decided to target a market that nobody else was targeting. It was a less glamorous, yet untapped market. They decided to solicit manufacturing firms that needed to train their line managers in leadership and corporate management techniques. Company Z's strategy worked. They have secured this market niche and enjoy an 80 percent market share. In addition, they are experiencing rapid growth and

profitability.

It is imperative to have at least one competitive advantage if you are going to successfully compete in the marketplace. Barry Lyngard, president and founder of PAWS, a Philadelphia-based pet food distributor, identified his competitive advantage after conducting a competitive analysis. "Our strategy started with a business plan with partners ... Now we use a budget that is seriously constructed, with bonuses tied to the budget. Every month, we develop individual store plans with the store manager ... and (we) construct a five-year plan that everything ties into ... Initially, there were many gross assumptions made because we were willing to take the risk ... We first assumed the costs and prices for a supermarket and acknowledged that discount food stores would match them. We then ascertained the minimum square foot store to which manufacturers would deliver; typically pet food manufacturers ship and charge by the truck load ... Also, we realized we were in an emotional business where product knowledge was key to the customer &133; There was lots of trial and error ... We conducted a competitor analysis of certain public companies, such as PetCo. and PetSmart, and noticed that there was limited emphasis on customer service. We place considerable emphasis on customer service and receive 500 to 1,000 customer cards per week. We want to hear from our customers, and we review responses monthly about customer likes and dislikes. Since 1994, we have created a database of 96,000 'Tracker Customers' who receive a bimonthly newsletter and pet birthday cards ... Now we have the software to 'slice and dice' all customer information and preferences ... We place great importance on creating and producing marketing ideas internally for our clientele."

Identify the areas that you can implement strategies in to give your company or specific product a competitive edge:

- Operations (hours, accessibility, location)
- Customer Service
- Market Segmentation/Target Market
- Packaging
- Technology
- Value Added Services (newsletters, seminars, tip sheets)
- Pricing (terms, first time incentives, repeat incentives, discounts, giveaways)
- Special Promotions
- Strategic Alliances (e.g., American Express and Avis cross promotional campaign, Compaq and Novell cross promotional campaign)

Thomas Owens, Chairman, president and CEO of GMIS, Inc., a Forbes 200 health care software company based in Great Valley, PA, went to his customers to find out how his company could better service them. "Initially, talking with customers was the only thing we could afford ... We needed to understand problems and solutions ... The key element was to focus on certain products ... We brought in 15 executives from the market for a two-day session. ClaimCheck, our first product, was the result of such discussions (in 1987) ... As we became larger, opportunities came to (Tom's) door which had to be filtered ... By 1988-89, our strategy for building business was fluid and used for fundraising ... A little later, we focused on changing our thinking on how to seize opportunities ... Today, we start with top-down financial and operating goals that drive the strategy. Each product manager draws up a product plan, including strategy, operational schedule, and resource allocation. Each plan is circulated throughout the organization to see how much each area is affected. The plan gets "rolled up" into a budget and sales strategy ... One hard lesson to learn was to stop spending too much time "over-engineering" a product. It is just as important to ask, 'what shouldn't this product do' as it is to focus on customer issues ... Also, don't try to bite off more than you can chew. Convince yourself you're the best at something before you move onto something else ... "

Astute entrepreneurs analyze and strategize extensively. The tools presented above offer alternatives and information to entrepreneurs who take the time. Not excessively costly or time consuming, strategic planning can help entrepreneurs identify and deal with important issues and accelerate their business' growth.

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The Edward Lowe Foundation was created by Ed and Darlene Lowe in 1985 to "champion the entrepreneurial spirit." Headquartered near Cassopolis, Michigan, the foundation works with entrepreneur support organizations nationwide to encourage peer learning among second-stage business owners. Before his death in 1995, Ed Lowe, the creator of Kitty Litter, had become an advocate for entrepreneurship as the key to the success of the free-enterprise system.

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