Why Middle-Market Organizations Struggle Developing and Implementing a Strategy

By Robert J. Meehan
bob@flatironsmanagementgroup.com

In the article, “How to Profitably Grow Underperforming Companies,” I recommended that companies must develop and implement a unique Value Proposition and detailed strategy as well as a team-oriented and customer-focused culture. Business magazines have published numerous articles on the importance of a strategy, but middle-market organizations still struggle with developing and implementing a strategy.

The **Strategic Ingredients are:** Unique Capabilities, Value Proposition, Detailed Strategy and Strategic Priorities.

Why organizations struggle developing a strategy:

1. Strategy process is only conducted annually.
2. Inadequate customer/product line data is available.
3. Limited understanding of targeted customer’s business exists.
4. No Value Proposition and its unique capabilities are not identified.

Why organizations struggle implementing a strategy:

1. Resources are not available.
2. Strategy is not translated into Strategic Priorities.
3. Organization doesn’t know/understand the Strategic Ingredients.
4. Stakeholder groups resist the changes.

01. Strategy process is only conducted annually.

The annual planning ritual—SWOT's, goal setting and endless financial projection scenarios—should have been scrapped years ago. Why? Because the projections and programs don't produce a unique Value Proposition and detailed strategy, and this annual ritual wastes an incredible amount of time. The ritual typically drags on from October to January—while disrupting the organizations—and by March the projections are typically revised.

Given the exhaustive time spent on this annual ritual as well as the monthly board package/presentation, it's no wonder CEO's don't have enough time to focus on an ongoing strategic process.

The organization's strategy isn't fixed. It continues to evolve based on changing market conditions, changing customer needs, organization's unique capabilities and available resources to implement the strategy.

Recommendation: Engage the entire organization in the strategy process.

- Implement quarterly **Strategic Deliberations sessions**—this is not an operations review—that includes team members from all parts of the organization: senior management, middle management, business units and hourly.
- Consider suggested agenda items for the quarterly Strategic Deliberation sessions:
    - ➢ Review your profitability from each of your targeted customers—overall and by product/service.
    - ➢ Review the "intelligence diaries" of your targeted customers and determine how your organization can improve delivered value to them.

    - ➢ Determine how to improve your unique capabilities that support your Value Proposition.
    - ➢ Decide if the strategy needs to be adjusted given changes in your capabilities and the targeted customer's needs, the competitive environment and resources available.
    - ➢ Review cash invested vs. the market value—to free up available resources—for each business unit and product line.
- Implement a 12-month roll-forward—P&L, balance sheet and cash flow—that must be updated monthly by operations, sales and marketing as well as by the financial team. This roll-forward forces the organization to challenge the future monthly, and focuses it on more quickly identifying problems—as well as pursuing opportunities.
    - ➢ When focusing on underperforming companies, a 12-month roll-forward is initially appropriate. Other companies should consider 24-month roll-forward and then a quarterly roll-forward for the 3rd out year.
    - ➢ Revenue forecasts must be driven by specific customer-projected revenues of probably the top 30-customers.

The monthly roll-forward and quarterly Strategic Deliberations will focus the organization on implementing the Strategy Priorities and force them to regularly think about the future.

02. Inadequate customer/product line data is available.

All companies are loaded with data, but most available data from middle market companies has been tailored by the financial department—for financial reporting—and is not adequate to support the strategic process. We always have to recut and restructure the data in order to understand the health of the business.

Following is the **bare minimum data;** must be trended (trailing 15-months and then for the last 5-years)

Ranked highest to lowest-Top 50	Ranked Overall	Ranked by Country	Ranked by Region	Ranked by State	5-Year Cumulative Ranking
Customer revenues	x	x	x	x	x
Revenue by end market	x	x	x	x	x
Customer profitability in aggregate dollars	x	x	x	x	x
Customer profitability as a % of revenues	x	x	x	x	x
List all negative margin customers	x	x	x	x	x
Each product's aggregate profitability	x	x	x	x	x
Each product's profitability as a % of revenues	x	x	x	x	x
Negative margin products	x	x	x	x	x

Return on assets (working capital and fixed assets) for each product	x	x	x	x	x

Recommendation:

- CEO must drive the process. Don't let the financial group dictate the data.
- CEO must continually meet with suppliers, customers as well as the entire organization to better identify, recognize and plan for marketplace changes.
- "Intelligence diaries" for targeted customers, key competitors and suppliers must be set up.
- Conclusions as to how to improve the organization's Value Proposition must be reached.
- Focus should be on what intelligence is needed to solve your customer's most important problems.

Frequently as a CEO, I ride with delivery truck drivers to the customer locations. The drivers are a great source of customer and competitive information, and meeting customer workers is a great source of market intelligence.

03. Limited understanding of targeted customer's business exists.

Your organization must deliver consistent, superior value to its targeted customers. However, the customers must decide whether you're providing the value they need. In order to develop your Value Proposition, you must have a detailed understanding of your targeted customers business to design and deliver value that the customer needs. You must **thoroughly understand the targeted customer's:**

- Competitive environment: struggles with its supply chain and solving its customers' problems.
- Challenges and problems: such as customer's infrastructure, reputation and leverage.
- Corporate objectives as well as objectives of the customer's key personnel that make the buying decisions.

As a CEO, I spend 75% of my time in the field—meeting with team members, customers and suppliers—and most of the meetings are informal. I keep notes for each targeted major customer and key suppliers that I share with the management team.

Recommendation: to better understand your targeted customer's strategy:

- Determine the Value Proposition of each of your targeted customers.
- Determine your targeted customer's unique capabilities that are the foundation for their Value Proposition.

- Understand your targeted customer's current situation: health of their industry, leverage, market share, opportunities and threats, and what drives their performance.
- Understand the revenue and product offerings for each of your targeted customers.
  - ➢ Profitability of each of their top customers
  - ➢ Profitability of each major product offering
- Determine each targeted customer's growth objectives.
  - ➢ Geographic expansion
  - ➢ Product line expansion
- Understand what are each targeted customer's successes and failures.
- Prepare monthly roll-forward revenue projections for each of the Top 30 customers and by the product mix.

Putting together a customer "intelligence diary" is like putting a puzzle together; it can't happen all it once. The entire organization must actively participate in gathering customer as well as competitor intelligence.

04. No Value Proposition and its unique capabilities are not identified.

My experience over 30-years in helping resource poor companies grow profitable revenues is that sustainable growth most often comes from leveraging your unique capabilities—strengths that are truly unique. Word of caution: the strengths that are derived from most SWOT exercises are not strengths because other competitors may possess the same strength.

Recommendation: Improve your unique Value Proposition—one that competitors can't copy—by both continually improving your unique capabilities that support your Value Propositions as well as making sure the Value Proposition offered to your targeted customers is most relevant to their business success.

01. Resources are not available.

Capital resources are a major constraint for every organization, regardless of size. The CEO must regularly challenge what assets and business—both superior performers as well as underperformers—should be sold to generate the resources necessary to implement the strategy. Remember, **a strategy isn't fixed; it continues to evolve.**

An organization's assets and business units have a limited life cycle. Assets and business units should have different owners at different times during their life cycle. However, most organizations are wed to their business units and don't regularly challenge whether these assets and business units still fit. The sale of those legacy business units could provide the cash resources to implement a new strategy or take advantage of opportunities.

All business units fight for a disproportionate share of the capital resource pie. The business unit senior managers may be justifying continued investment in their business by hockey stick projections and designating many of the losses as non-recurring events. Business unit senior management can't expect to be objective because they are wed to their business; that's understandable.

Recommendation:

- Continually ask: Do we have the resources to implement the strategy over the entire implementation period?
- Sell business units and assets that no longer fit the strategy.
- Compare the total investment—working capital, fixed assets and other assets—in each business unit **to their market value.**
- Compare the total investment—working capital, fixed assets and other assets—in each product line **to their market value**.
- Determine how much cash is required to be invested in each business unit as well as each product line—working capital, capital expenditures and

product development—in the next 24-months. What is the improvement in ROIC as a result of this investment for:

- ➢ Each business unit
- ➢ Each product line
- ➢ Corporate assets

The key point that is worth repeating over and over is the organization **must have the resources**—cash, debt capacity, skilled people, infrastructure, time—**to completely implement** the Strategic Priorities. **If the answer is no, you must change the strategy.** Almost every organization overestimates its available resources and its capabilities—resulting in not being able to implement the Strategic Priorities. If your middle market organization doesn't prepare regularly detailed 13-week cash flows—then monthly for the next 12-months—you won't know whether you will have the cash resources when they're needed.

2.) Strategy is not translated into Strategic Priorities

CEO's must translate the strategy into a few—the most important—Strategic Priorities so that the entire organization can understand and help implement the strategy. These Strategic Priorities are part of the Strategic Ingredients and a roadmap for the strategy. They are the most important objectives that will focus the organization to successfully implement the strategy.

Strategy Priorities should:

- Say why they're so critical to implement
- Include just a few, the most important
- Be specific so progress can be regularly measured
- Spell out and dollarize the necessary resources to implement

03. Organization doesn't know/understand the Strategic Ingredients.

Senior Management must continually communicate their Strategic Ingredients—Unique Capabilities, Value Proposition, Detailed Strategy and Strategic Priorities—to the entire organization—as they are the organization's roadmap to drive profitable growth and tell them what to focus upon, what to avoid and what capabilities can't be compromised.

The most common response from senior management on why they don't share the Strategic Ingredients with the organization is: "It's confidential, and competitors could harm us." However, it shouldn't be a secret…. No one else can implement your Value Proposition if it is truly unique. Your Value Proposition is based on your unique capabilities, so it can't be readily copied if the capabilities that are its foundation are truly unique. In addition, a competitor doesn't

have the same culture as you, so that's another reason why they couldn't implement your Value Proposition.

The Strategic Ingredients will provide the boundaries for the organization in pursuing growth opportunities. **Strategy is about tradeoffs.** No one has unlimited resources to implement all the good ideas.

The CEO must continually communicate the Strategic Ingredients to the entire organization by being visible outside the headquarters' kingdom. The CEO's communication should be supplemented by other leaders—from all levels—within the organization.

Example:

In two recent engagements as an Interim CEO, I selected several well-respected mid-level managers to help me communicate the Strategic Ingredients throughout the organization. Since both managers were actively involved in the strategy process, they were very knowledgeable and passionate about the importance of implementing the strategy. On a daily basis, they interacted with both the entire organization as well as our targeted customers and suppliers, and their passion for what we were doing made the difference in delivering the message. People would call these two people up and ask, "What is all this stuff….Does it make sense?"

Recommendations:

- Strategy process must include quarterly Strategic Deliberations.
- A few respected team members should be enlisted to help communicate the Strategic Ingredients throughout the organization.
- The CEO must build strong relationships with the field business unit teams, key suppliers and targeted customers so each group fully understands the strategy.

04. Stakeholder groups sometimes resist the changes.

Why? Because these stakeholders believe any changes will hurt their business.

Who are these stakeholders that sometimes resist strategic change?

Suppliers—The key managers of an organization are often loyal to suppliers because they've developed long-term relationships with each other's families over a long period of time. It's human nature to form such long-term friendships. I've seen this frequently in the companies I've consulted with or led over the last 30 years.

What should the CEO do? The CEO must regularly be visible in the field and develop a relationship with the key suppliers. Key suppliers are a great source of industry intelligence and usually have great ideas on how you can improve your Value Proposition. The CEO should treat suppliers the same way as customers—as both groups are equally important to its long-term success.

Customers—A key part of the strategy is what customers to target and just as importantly, which to avoid. Remember your unique capabilities—the foundation for your Value Proposition—must enable you to charge a premium price. Senior managers frequently don't want to end long-term relationships with customers—that should no longer be customers—because just as with certain suppliers, they've become friends.

What should the CEO do? Again, the CEO must regularly be visible in the field and develop relationships with customers to better understand the market and determine which customers will align best with its key strengths.

Legacy Business Units--There is a life cycle to almost all business units within a company's portfolio. I use the word "portfolio" because the CEO must determine regularly—and discuss at least quarterly—whether each business unit fits its strategy.

What should the CEO do? Evaluating the legacy business units throughout the year is part of a successful strategic process.

In summary, you can establish a profitable revenue growth stream if you dedicate the time to conduct an ongoing strategic process throughout the year.

REFERENCES

Donald Sull, Stefano Turconi and Charles Sull, “Six Steps to Communicate Strategic Priorities Effectively,” MITSloan Management Review, January 19, 2018

Paul Leinwand, Cesare Mainardi and Gerald Adoph, “Growth Needs to Come from the Entire Company,” Harvard Business Review, June 17, 2017