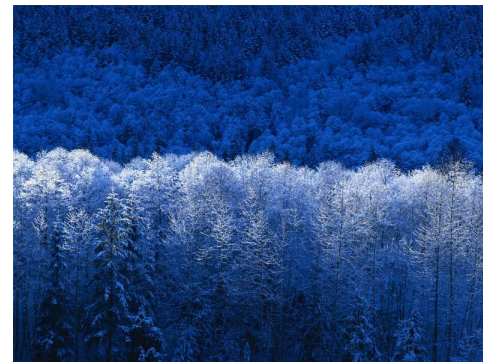
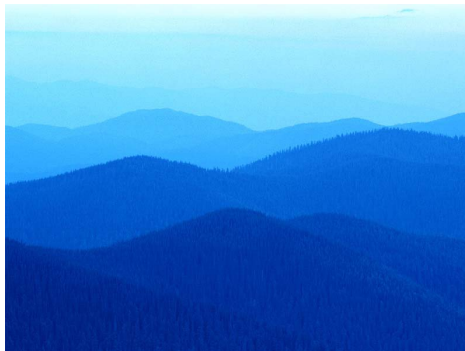
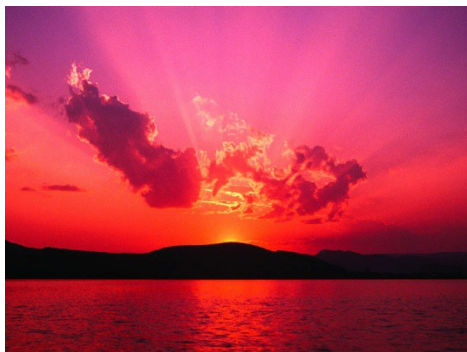


A website for the “practically rigorous” strategy professional



www.strategybest.com – Knowledge Taxonomy In 15 Components

Bill Bgler

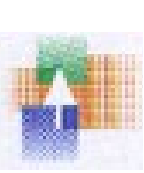


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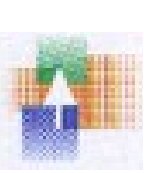
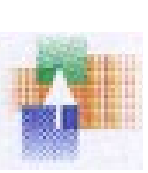


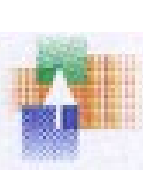
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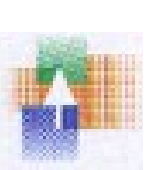


Knowledge Taxonomy

**15 Components That Are the Minimum,
Necessary and Sufficient Underpinnings of
Observed Competition for For-Profit Firms and
Levers of Performance**



Our “Secret Sauce”	Strategy in the Established Firm The Key Dilemma	Strategy in the Major New Venture Startup The Key Dilemma
1. Offsets to Downward Fade of Free Cash Flow	√	√
2. Punching Through 4 Kinds of Barriers in the Established Firm	√	√ Fend off early
3. Candidates for the Laws of Strategy for the Established Firm	√	√ ?? May not apply
4. Environmental Carrying Capacity and Market Rhythm	√	√
5. Timing of Four Competitive Thrusts	√	√
6. Executive, Operating and Support Processes Being PALS With Market Rhythm	√	√
7. Cross Process Impacts	√	√
8. The Initiative Management Process As the Key Executive Process	√	√



Our “Secret Sauce”



Strategy in the Established Firm
The Key Dilemma



Strategy in the Major New
Venture Startup
The Key Dilemma



9. General Firm Valuation Model

√

√

10. Speed, People, Intangible Assets & Recognizing
New Opportunities (SPIR) – Key Macro Bases for
Competitive Advantage and Wealth Creation

√

√

11. Dynamic Capabilities – Current Most Useful General
Strategy Framework for Competitive Advantage and
Wealth Creation

√

√

12. 6 Key Elements and Relation to SPIR – Detail Bases
for Competitive Advantage and Wealth Creation

√

√

13. 6 Key Element Metric Concepts in the Context of
SPIR Provides an Action Measurement Drumbeat

√

√

14. Version 1 of Knowledge, Competencies and
Behaviors of the Successful Strategy Professional in the
For-Profit Firm

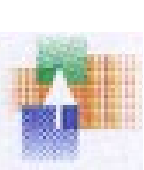
√

√

15. Detailed Strategy Framework Valuation Model &
Tool

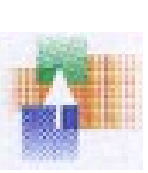
√

√



All Above Gives Rise To Offerings:

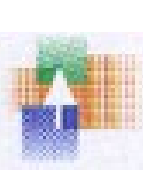
StrategyBest Diagnostics	√	√ Modified Form
StrategyBest Surveys and Quick Polls	√	√
StrategyBest Tools and Techniques	√	√
StrategyBest Templates	√	√
StrategyBest Publications	√	√
StrategyBest Action Research Projects	√	√
StrategyBest Learning Modules	√	√
StrategyBest Consulting Services	√	√ Modified Form



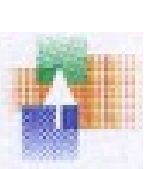
Starting in Bite Sized Chunks: The Soundbites and Lessons Learned Overview and Canvas

You need not take this on all at once. Read a Soundbite and Lessons Learned and then delve into the Component(s) that are an issue or interest you. Then proceed to others as you need them.

Bill Bigler



1. Offsets to Downward Fade of Free Cash Flow



1. Offsets to Downward Fade of Free Cash Flow

Soundbite:

According to Bart Madden's work (www.learningwhatworks.com) the Established Firm will experience downward fading free cash through time due to the "crush of competition"

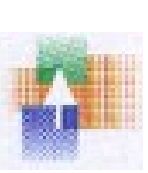
Fatal Flaws If Soundbite is Ignored:

Merging out of existence or outright failure in bankruptcy

What You and Your Firm Should Do Right Now:

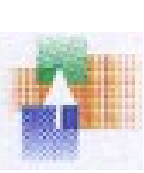
Engage in innovation and top line revenue growth initiatives to offset with upward fade in free cash flow. This will take time to incubate. See our estimate of the numbers of firms for each offset in the Detail.

Optional Detail Follows:



According to Gary Hamel, co-author of *Competing for the Future*, the average established for-profit business firm lasts for 40 years before it fails or is merged out of existence. But there is a variance around the average – many less than forty years and many longer than 40 years – and some much longer.

What Gives the Established Firm Success and Longevity Beyond 40 Years?



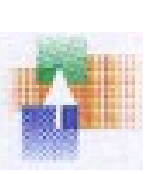
Picturing the Problem and Solution to Thrive for More Than 40 years

Industry/Environmental Dynamics and Hardball

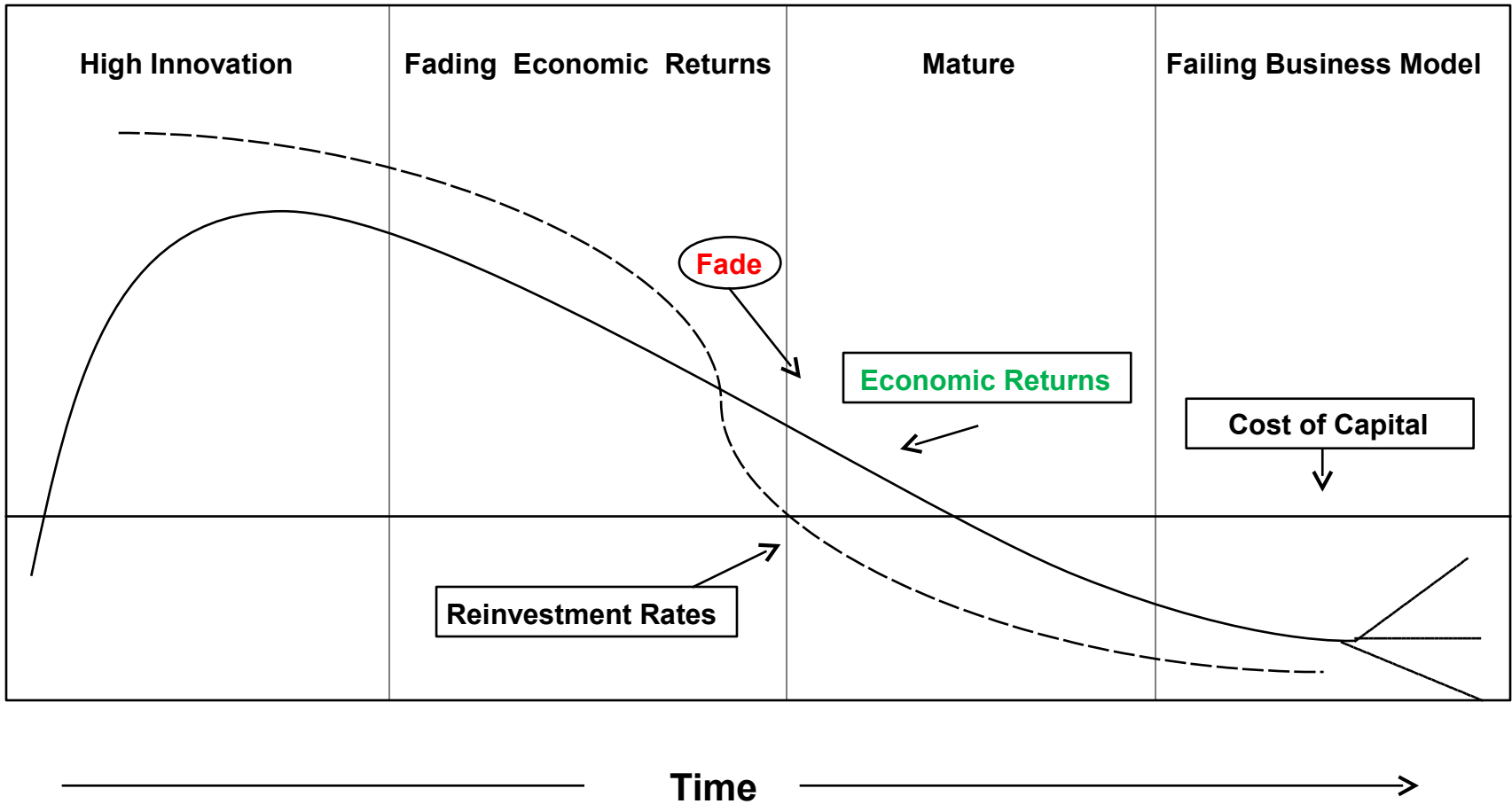


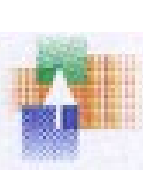
**Downward Fading
Free Cash Flow ROI**

*All successful established firms
will experience this through the
“crush of competition”: the issue
is how severe*

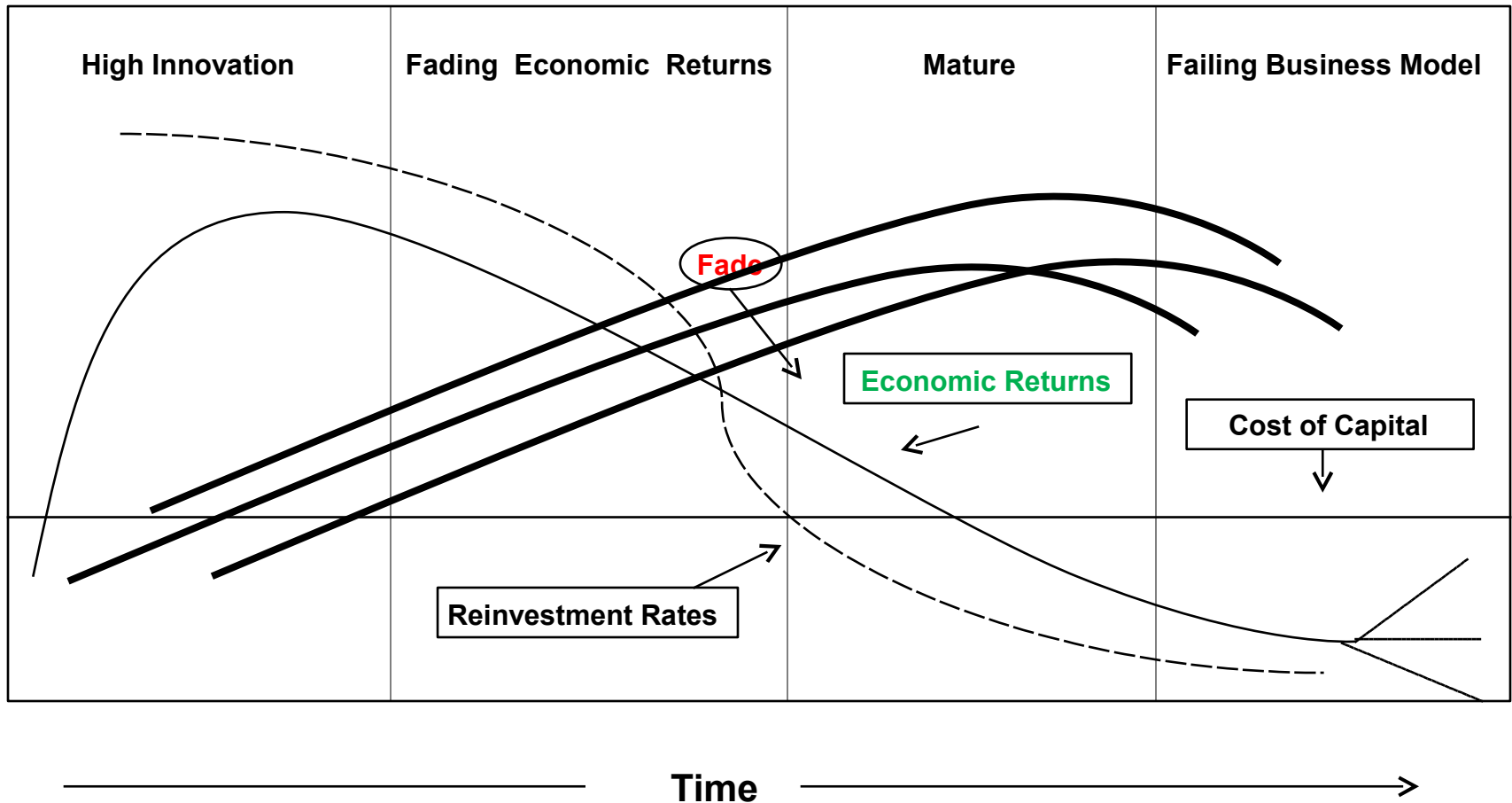


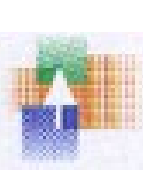
Business Competitive Life Cycle: Count on “Fade”





Counteract “Fade” With New EVA or TSR Creating Initiatives and Businesses





Picturing the Problem and Solution to Thrive for More Than 40 years

Industry/Environmental Dynamics and Hardball

**Downward Fading
Free Cash Flow ROI**

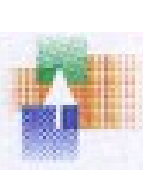
*All successful established firms
will experience this through the
“crush of competition”: the issue
is how severe*

**Offsets to counter with
Upward Fading Free
Cash Flow ROI and the #
of firms who can make
each work from my
experience and research**

**Operations Excellence and Incremental
Innovation - 1 in 50 Firms**

**New Products Innovation -
1 in 200 Firms**

**Change the Rules Innovation -
1 in 1000 Firms**

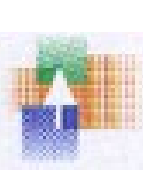


1. Offsets to Downward Fade of Free Cash Flow

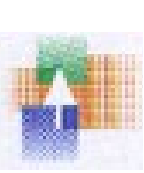
Lessons Learned and Further Things to Think About and Do:

This is virtually a law of competition for the for-profit firm. Merely protecting a prior and current favorable strategy position is a “slow motion train wreck” waiting to happen.

If your firm has not embraced the Innovation Revolution, it should. There are a variety of great contributions out there from Clayton Christenson, Nick Webb, Strategos and many others



2. Punching Through Four Kinds of Barriers in the Established Firm



2. Punching Through Four Kinds of Barriers in the Established Firm

Soundbite:

The Established Firm always has a mix of four kinds of barriers plaguing innovation and strategy execution. These are Subject Matter, Process, Structure and Culture barriers

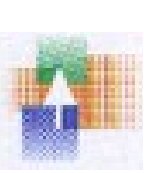
Fatal Flaws If Soundbite is Ignored:

The firm will be a long cycle time, high rework place to work and delay will be everywhere in the firm. This can delay the growth in the market value of the firm by 25% per year or more

What You and Your Firm Should Do Right Now:

Start building a culture of “transparent meritocracy” where people are not to blame and where barriers can be identified and removed

Optional Detail Follows:



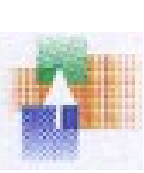
But as discussed in my 2004 book *The New Science of Strategy Execution: How the Established Firm Becomes a Fast, Sleek Wealth Creator* (Praeger 2004), the established firm must punch through four kinds of near universal barriers found within them to reverse the downward fade of free cash flow:

Subject Matter:

Process:

Structure:

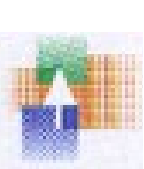
Culture:



Law 8: Four Kinds of Barriers Are Ever Present in the Established Firm That Impede Improvement

Subject Matter Barriers: These represent the “stuff” of your industry that have come into disagreement among key players who need to work together to produce results.

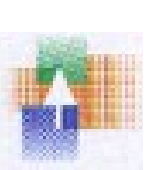
Process Barriers: Any impediment that causes cycle times, rework and cost to increase and customer satisfaction to decrease in the portfolio of executive, operating and support processes.



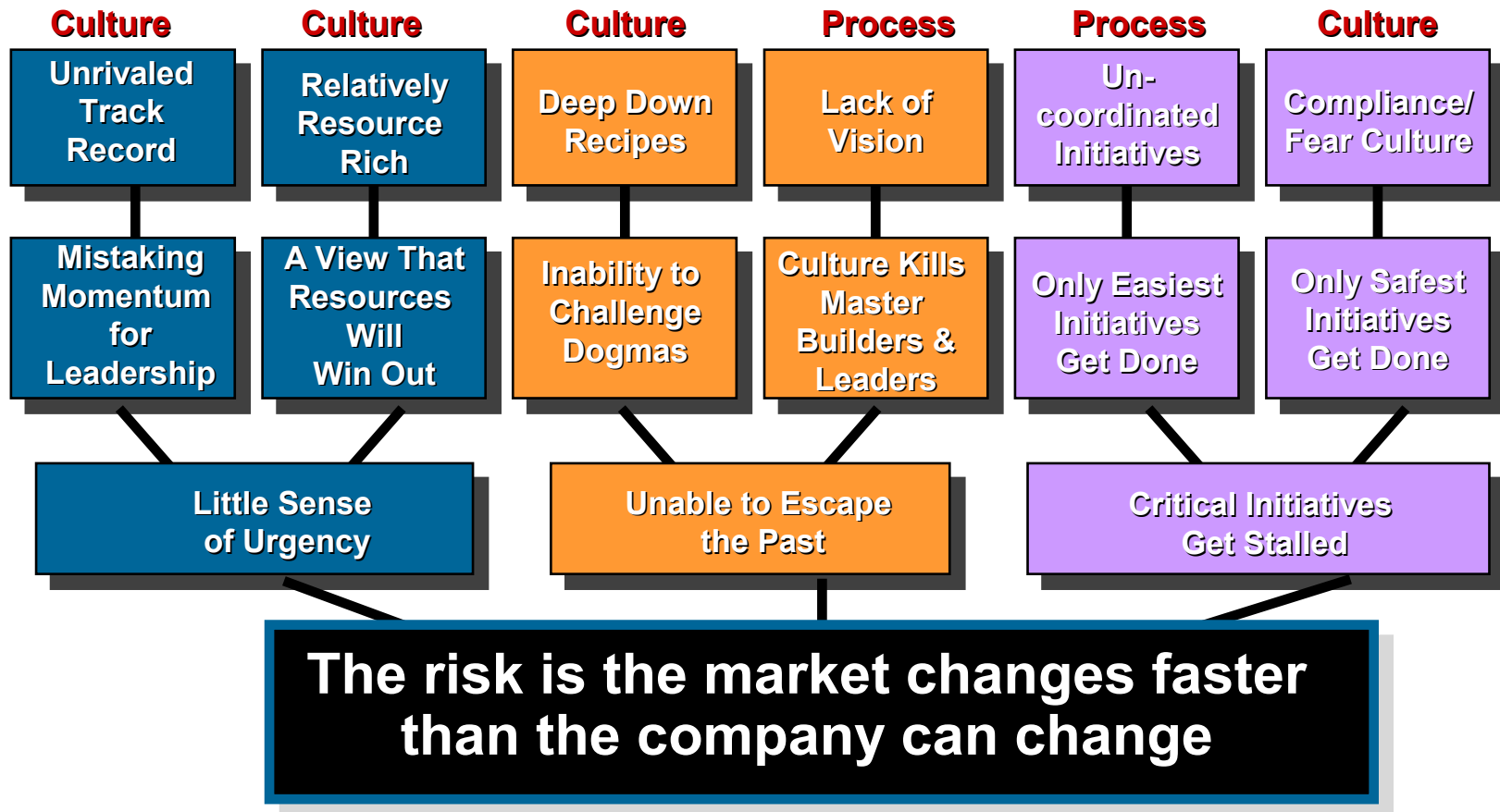
Law 8: Four Kinds of Barriers Are Ever Present in the Established Firm That Impede Improvement cont'd

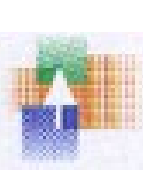
Structure Barriers: Periodically, firms find the way they are structured (by product, customer, technology or geography) have become too non-useful to make the required market and customer interfaces while keeping pace with faster market rhythms.

Culture Barriers: These are biases, blind spots and faulty mental models among executives that, in turn, cause inertia, delay, disastrous decisions, incorrect resource allocation, political infighting, chronic anxiety and fatigue that zaps resolve and courage to work on the difficult and many times “bet the company” issues.

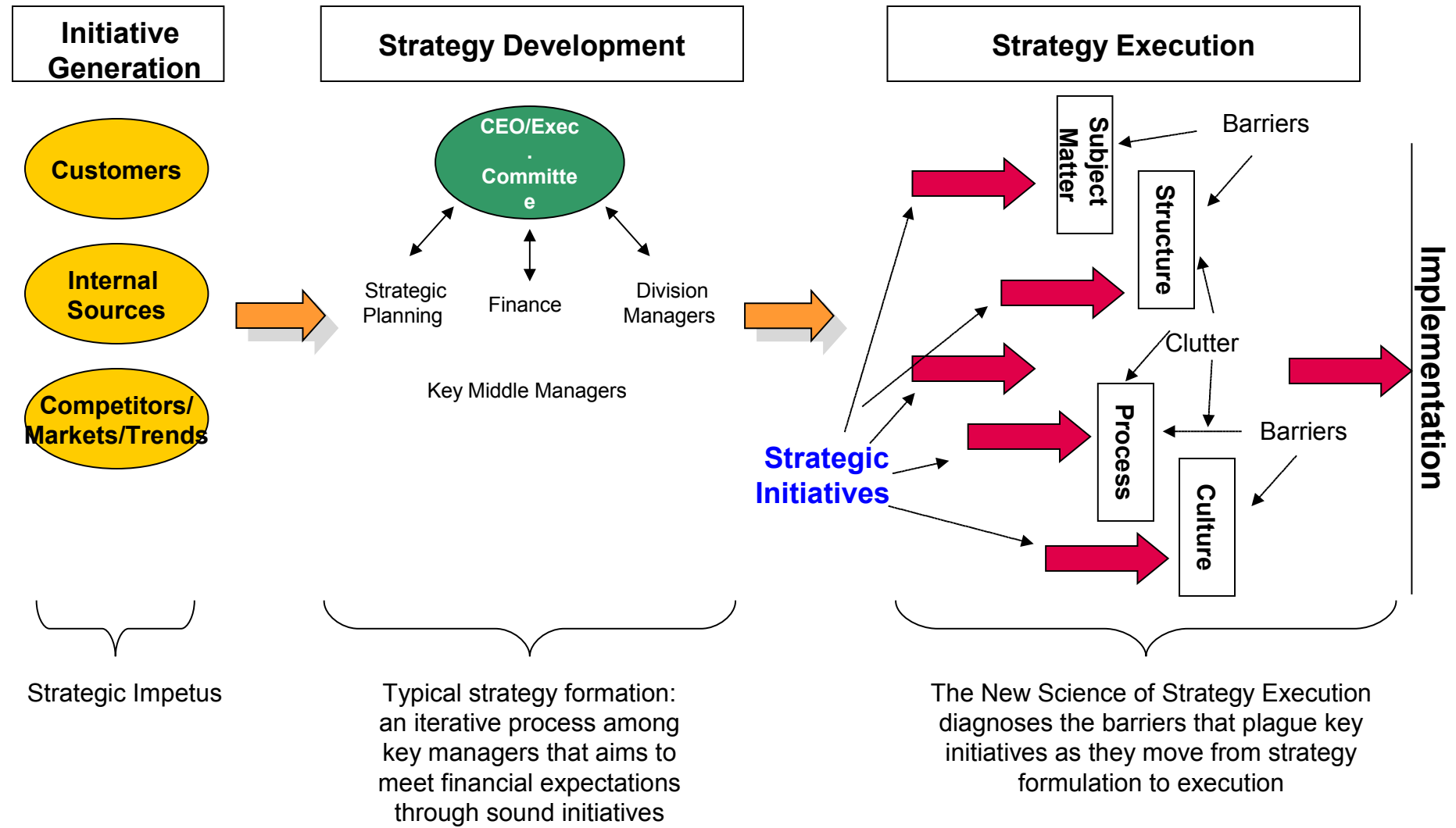


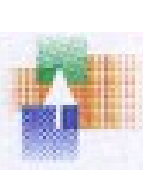
Law 8 Correlate: Process And Culture Barriers Are Deep and Can Seriously Constrain Strategic Health





Law 9: Strategy Execution and Strategic Change Management Must Be Led and Must Be Forceful





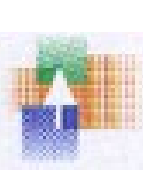
2. Punching Through Four Kinds of Barriers in the Established Firm

Lessons Learned and Further Things to Think About and Do:

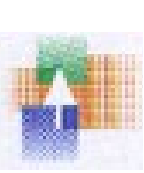
This is virtually another law for the established for-profit firm. If the courage is not summoned to create a culture of transparent meritocracy and install true process discipline with active barrier identification and removal, talent will leave your firm for faster, more agile competitors who are growing shareholder value for the benefit of all.

If your firm allows this slowness and frustrating rework to continue, shareholder value growth could come to a standstill, to the frustration of shareholders and the board of directors.

My book, *The New Science of Strategy Execution: How Firms Become Fast, Sleek Wealth Creators* (2004) and many other great materials can help. Several of the chapters from my book are attached in this website pro bono



3. Candidates for the Laws of Strategy



3. Candidates for the Laws of Strategy

Soundbite:

A law is a statement that works in all contexts and has this structure:

Premises
Initial Conditions
Causal Linkages
Thereby allowing **Predictions** to made

Strategy does not have laws like the physical sciences do. But the field has some candidates for your consideration

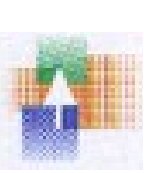
Fatal Flaws If Soundbite is Ignored:

A high probability of incorrect or disastrous strategy formulation and execution decisions

What You and Your Firm Should Do Right Now:

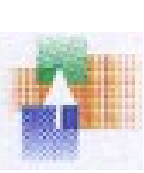
Learn the strategy laws and then at every key strategy meeting ask if one or more of the laws applies to your firm and your industry, or if they might apply in the near future if you are immune to them now

Optional Detail Follows:



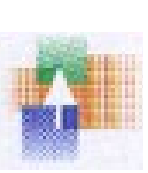
Candidates for Laws of Strategy:

1. Costs and Prices Always Decline
2. Competitive Position Determines Your Options
3. Customers and Profit Pools Do Not Stand Still
4. Simplicity Gets Results (and Complexity is a Killer)
5. Shareholder Value Hides Most of the Time
6. The Five Forces of Industry Structure Determine Industry Average ROIC
7. There is Improvement Potential In Every Established Business
8. Four Kinds of Barriers Are Ever Present in the Established Firm That Impede Improvement
9. Strategy Execution and Strategic Change Management Must Be Led and Must Be Forceful

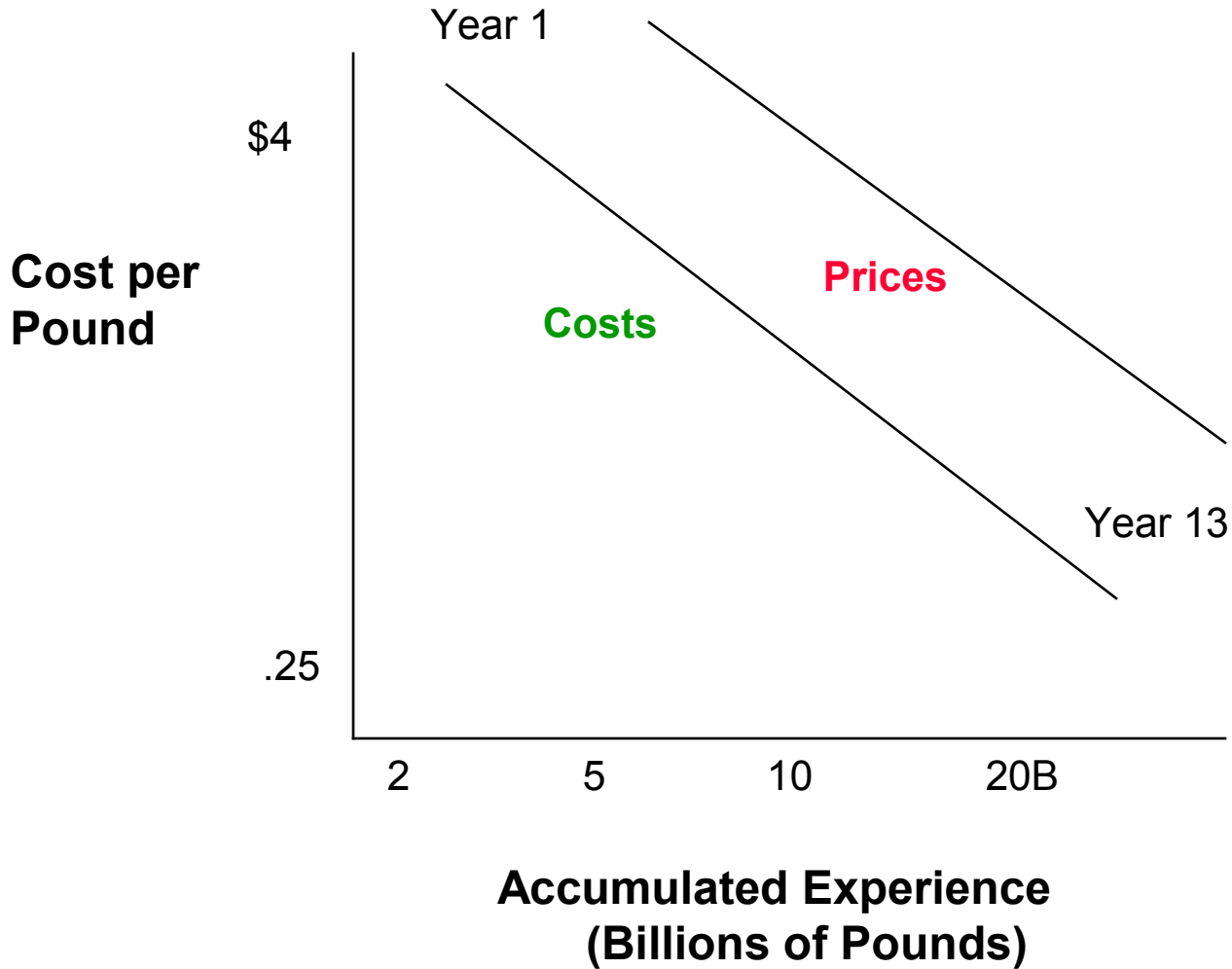


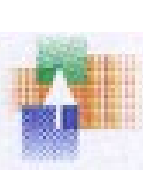
Sources:

1. ***The Breakthrough Imperative: How the Best Managers Get Outstanding Results***, Mark Gottfredson and Steve Schaubert, Collins, 2008.
2. ***Where Value Hides: A New Way to Uncover Profitable Growth for Your Business***, Stuart Jackson, Wiley, 2007.
3. ***The New Science of Strategy Execution: How Established Firms Become Fast, Sleek Wealth Creators***, Bill Bigler, Praeger, 2004.
4. ***The Business Performance Engine***, forthcoming book, Bill Bigler, 2011.
5. ***Strategy Safari: Your Complete Guide Through the Wilds of Strategic Management***, 2nd Edition, Mintzberg, Ahlstrand and Lampel, Prentice Hall, 2009
6. All other citations in the MADM 760 MBA Strategy Course Syllabus

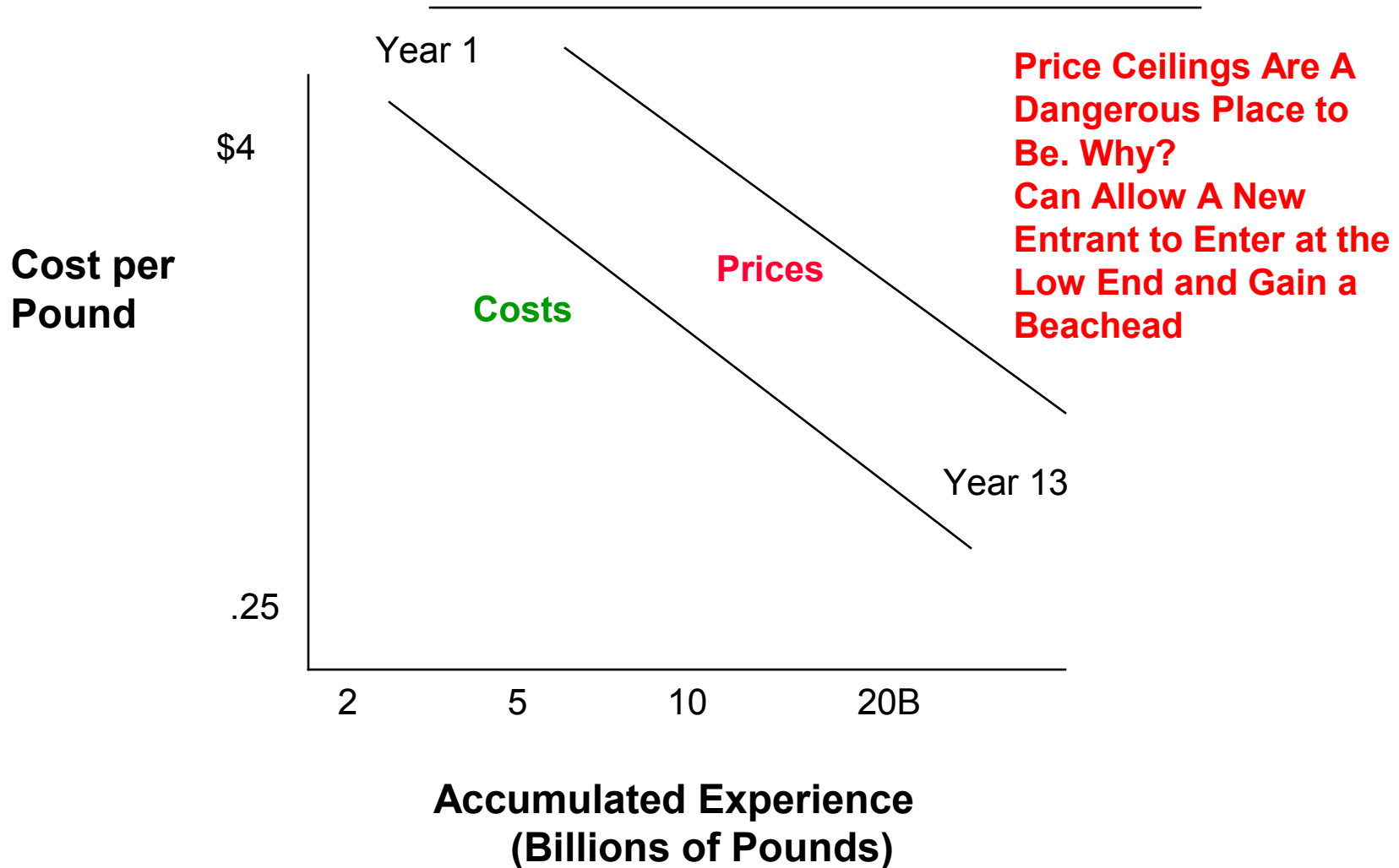


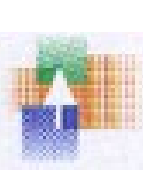
Law 1: Costs and Prices Always Decline



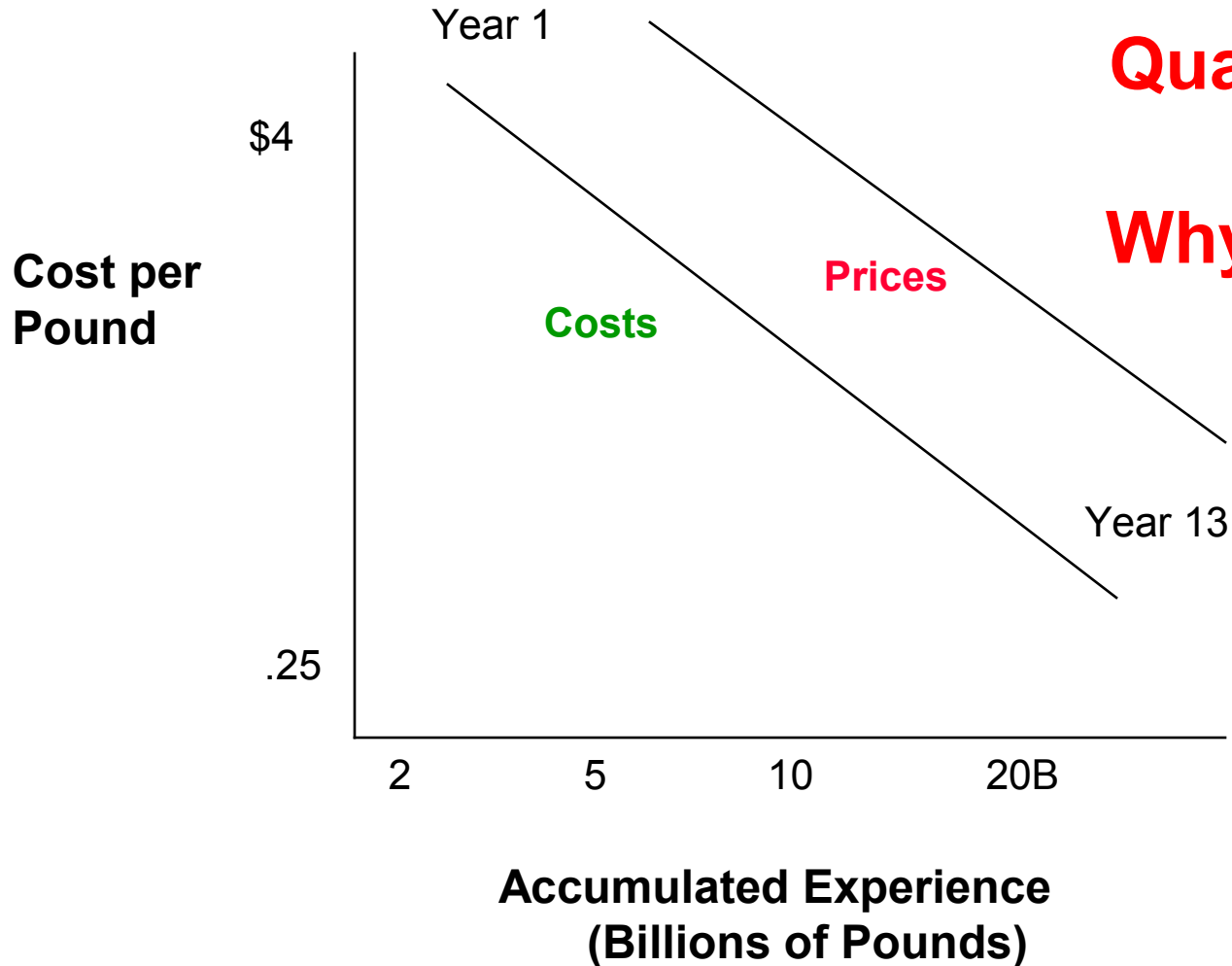


Law 1: Costs and Prices Always Decline

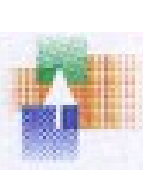




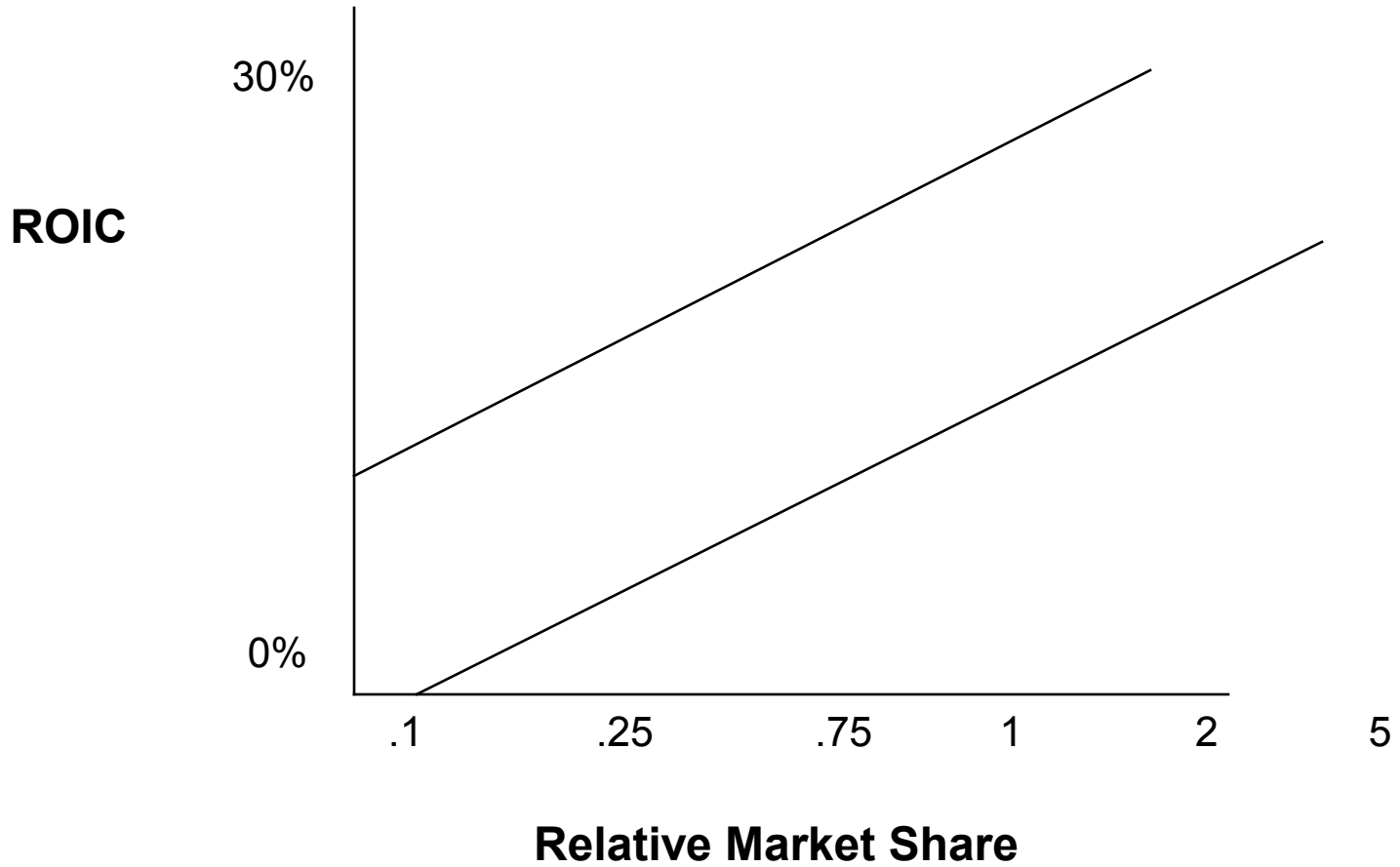
Law 1: Costs and Prices Always Decline

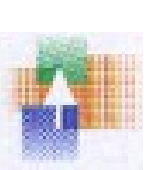


**Quality Increases
As Well:
Why? Cumulative
Learning**

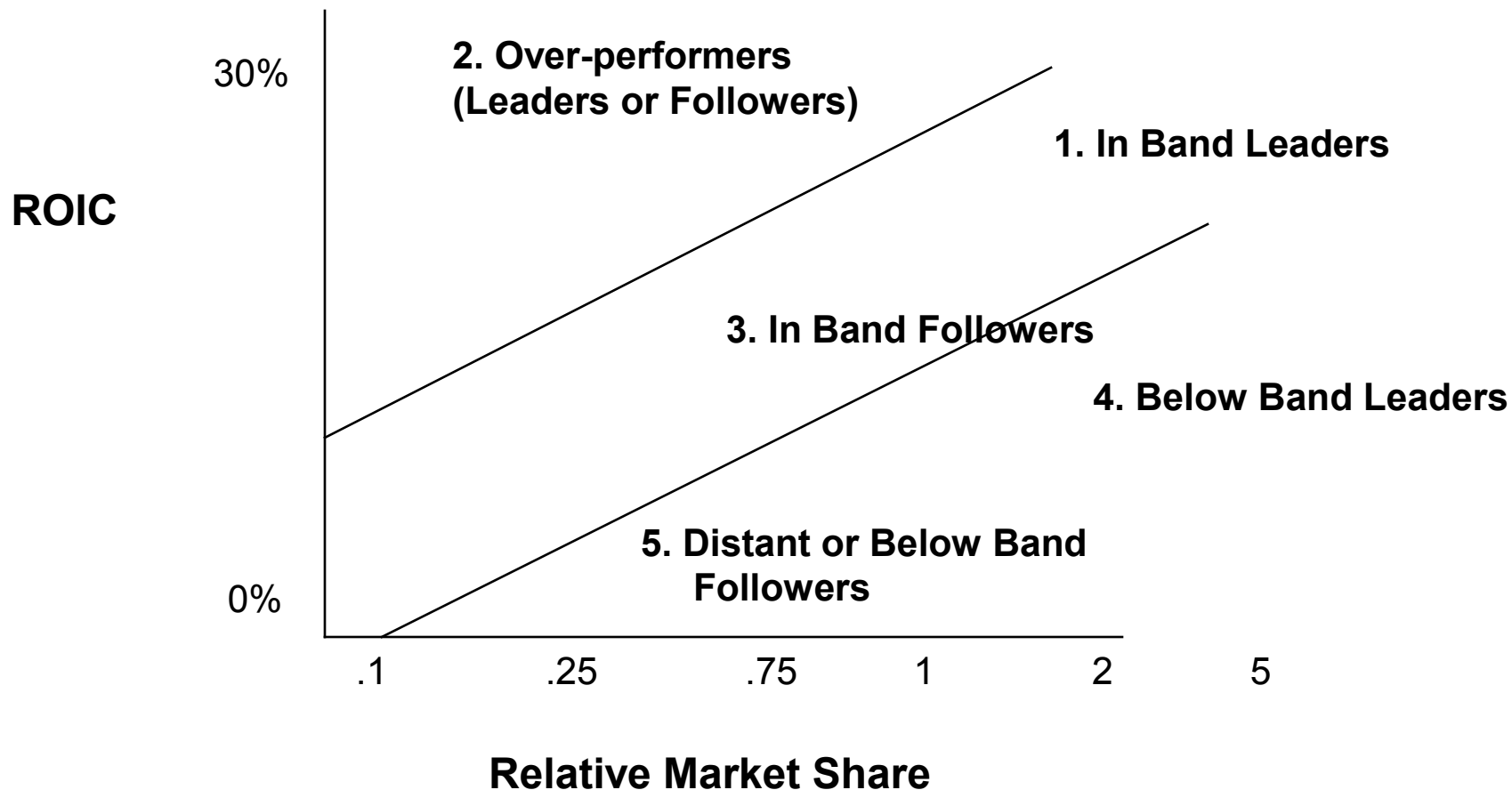


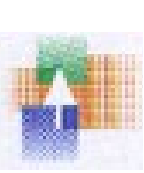
Law 2: Competitive Position Determines Your Options





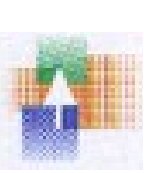
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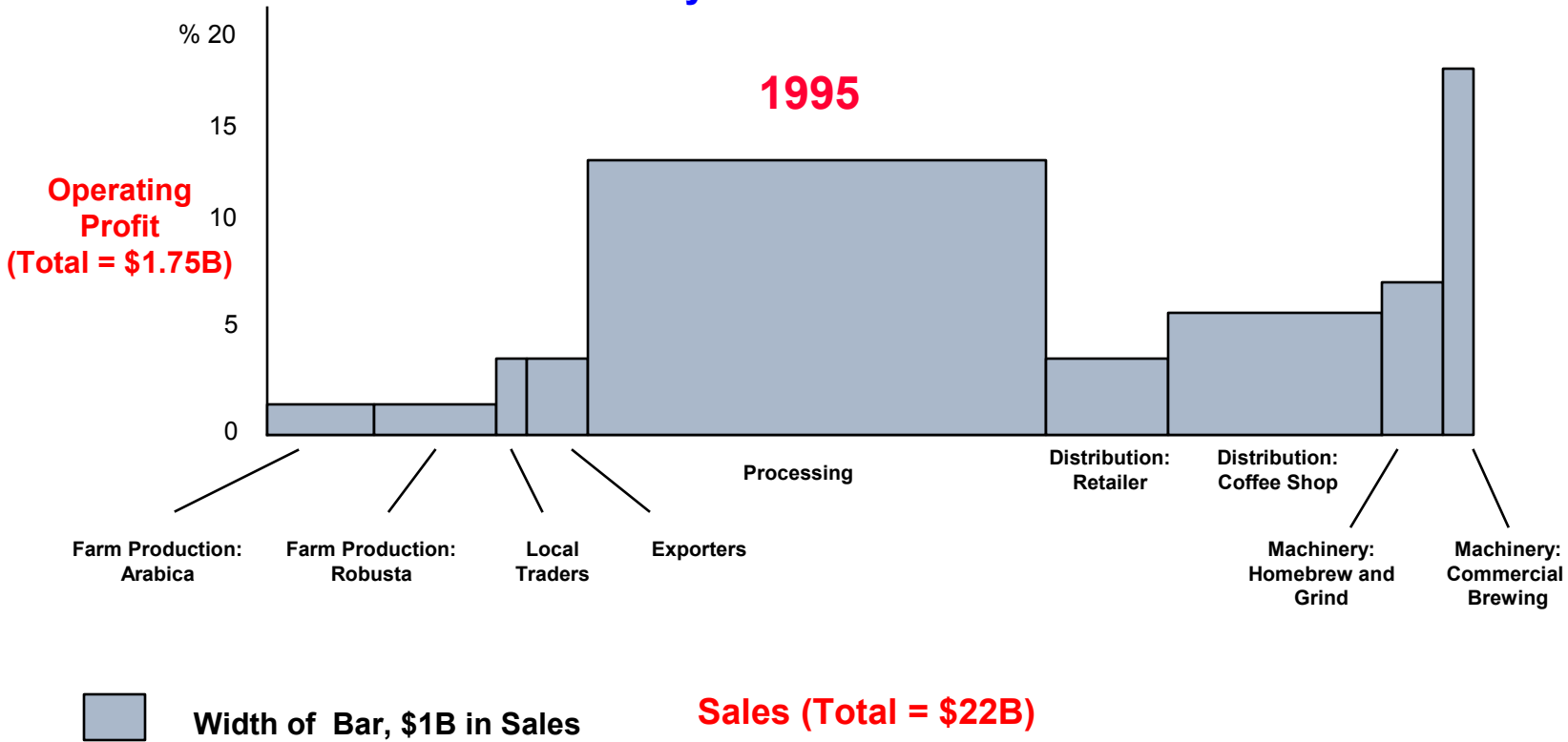
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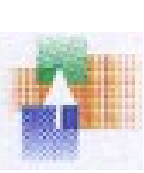
1. In Band Leaders – Stay the course, aggressively
 2. Over-performers – Invest to maintain and must grow without lowering prices or only lower as a last resort or to grow scale
 3. In Band Followers – Innovate in any way possible and grow scale while not harming ROIC
 4. Below Band Leaders – Diagnose the reason, invest for ROIC improvement (price increases and cost reduction) and leadership
 5. Distant or Below Band Followers – Up or Out – ***very quickly***
-



Law 3: Customers and Profit Pools Do Not Stand Still

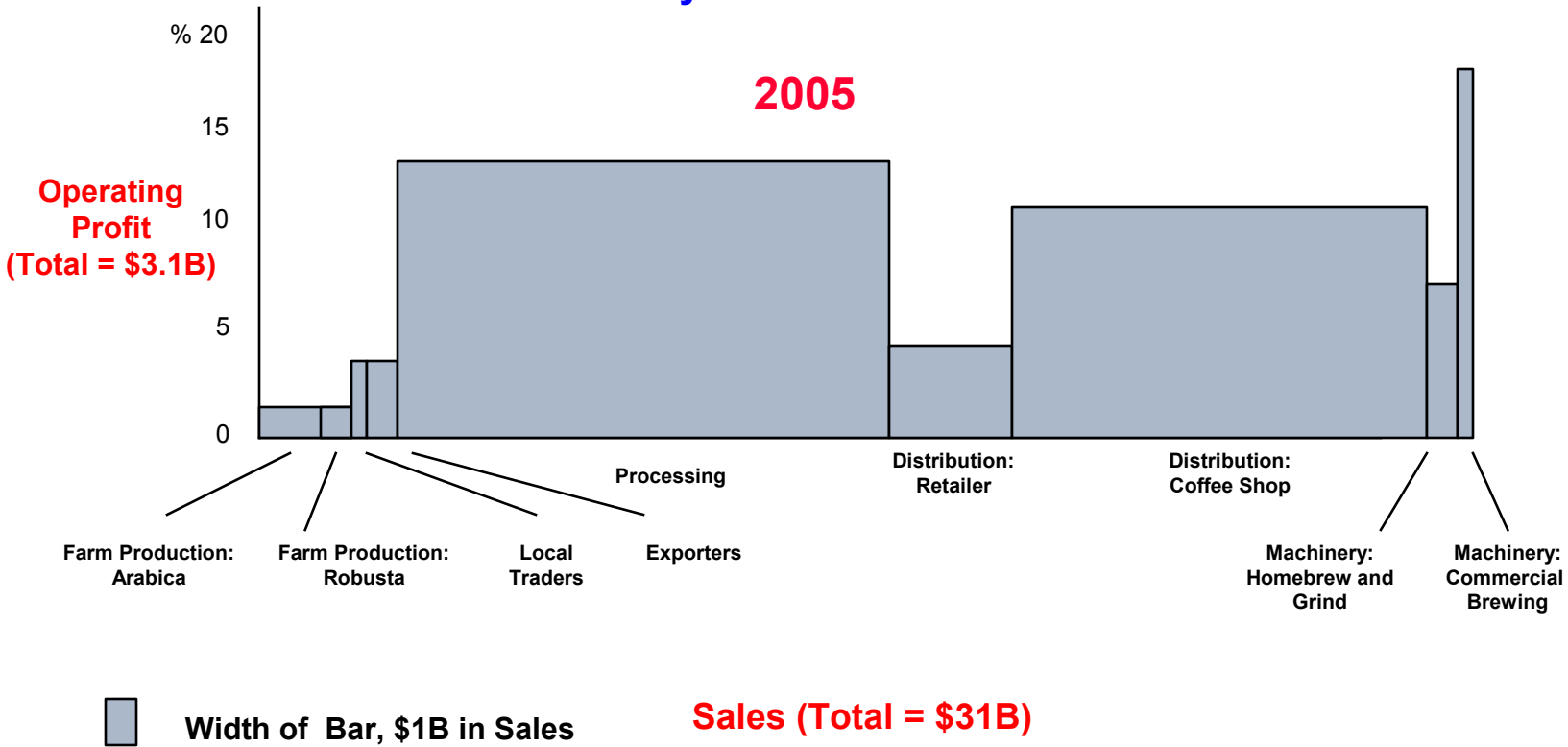
U.S Coffee Industry Profit Pool Shifted From 1995 to 2005

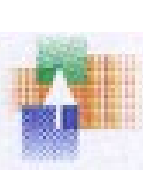




Law 3: Customers and Profit Pools Do Not Stand Still

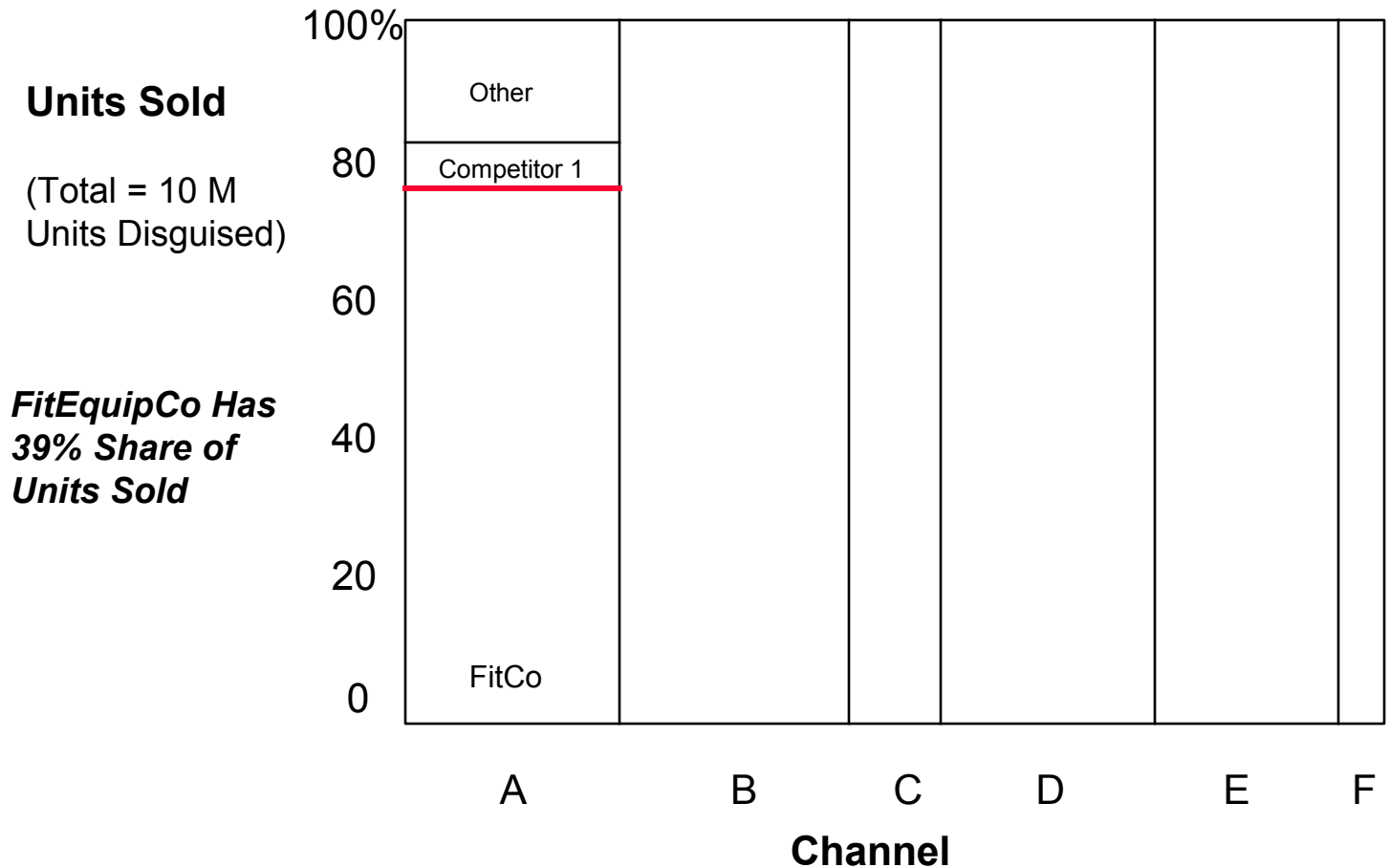
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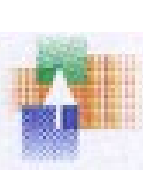




Law 3: Customers and Profit Pools Do Not Stand Still

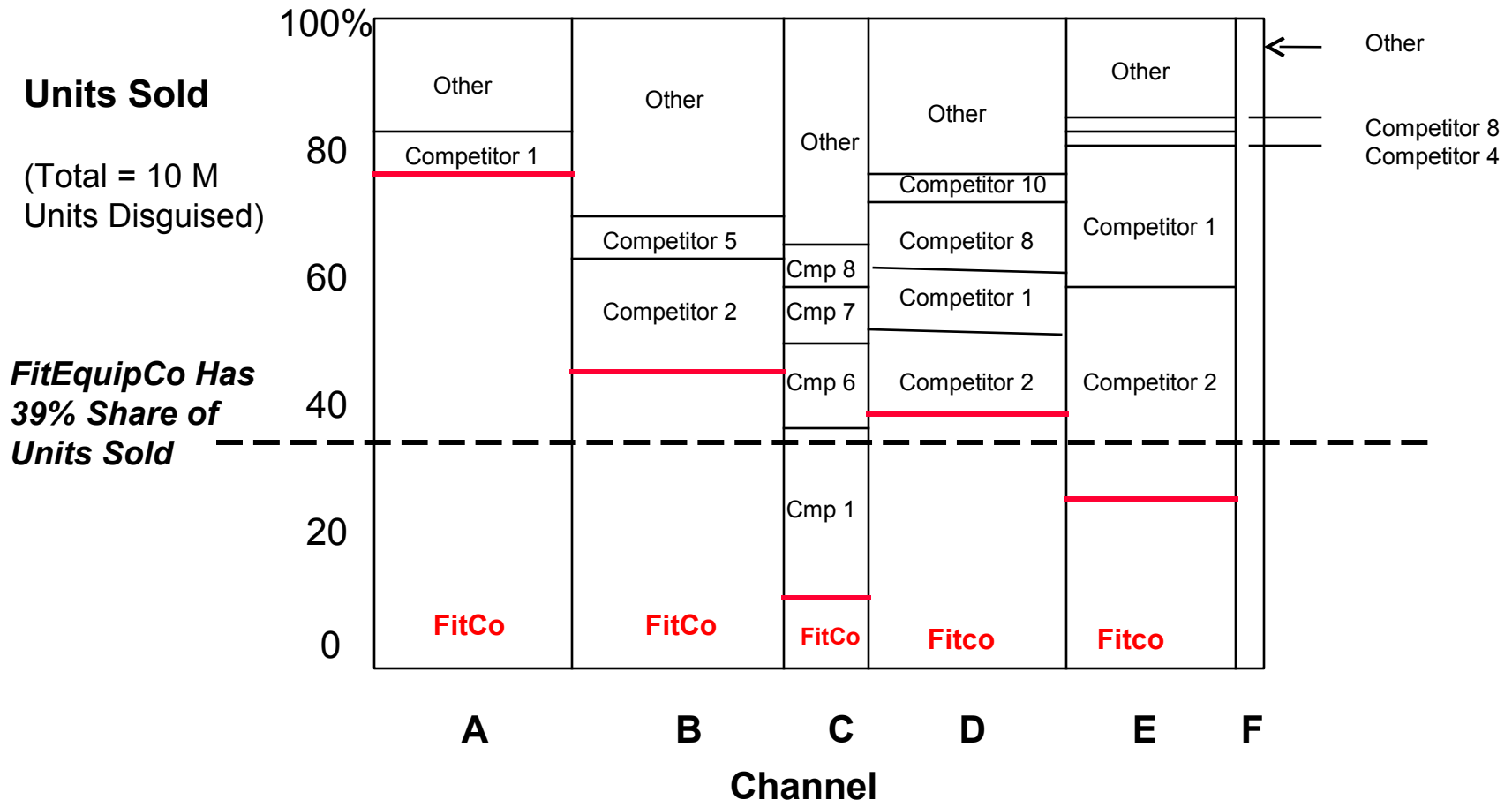
FitEquipCo Is the Market Leader in Units Sold, But is Currently Selling Through Low Margin Channels

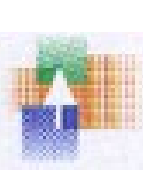




Law 3: Customers and Profit Pools Do Not Stand Still

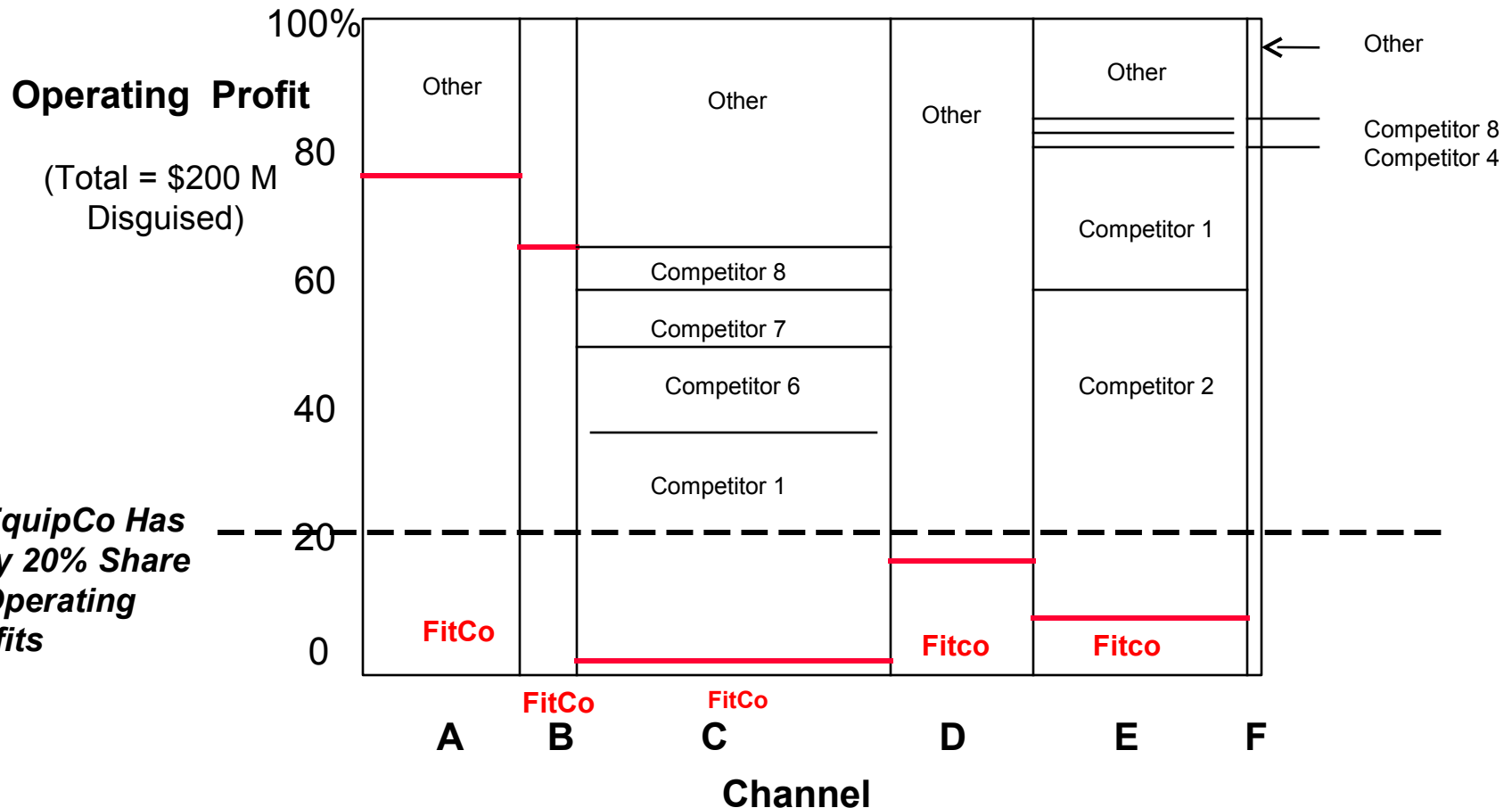
FitEquipCo Is the Market Leader in Units Sold, But is Currently Selling Through Low Margin Channels (next exhibit)

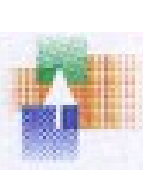




Law 3: Customers and Profit Pools Do Not Stand Still

FitEquipCo Is the Market Leader in Units Sold, But is Currently Selling Through Low Margin Channels (next exhibit)

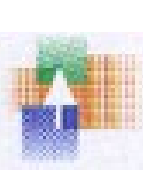




Law 3: Customers and Profit Pools Do Not Stand Still

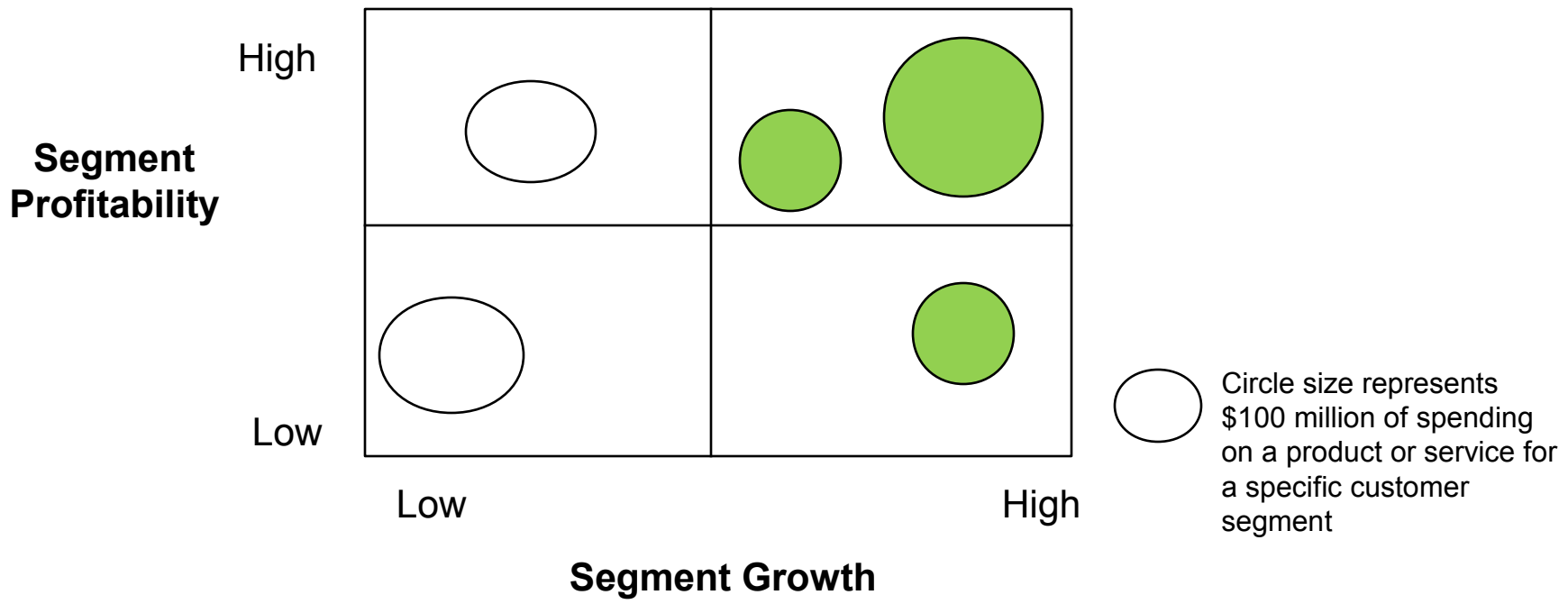
The Four Drivers of Customer and Profit-Pool Shifts:

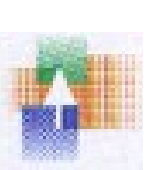
1. Everyday changes in customer preferences and behavior
 2. Innovations, both from within your industry and outside it, that drive longer-term customer shifts
 3. Changes in the bargaining power of customers and suppliers
 4. Changes in the business environment from any other source like regulations changes and the like
-



Law 3: Customers and Profit Pools Do Not Stand Still

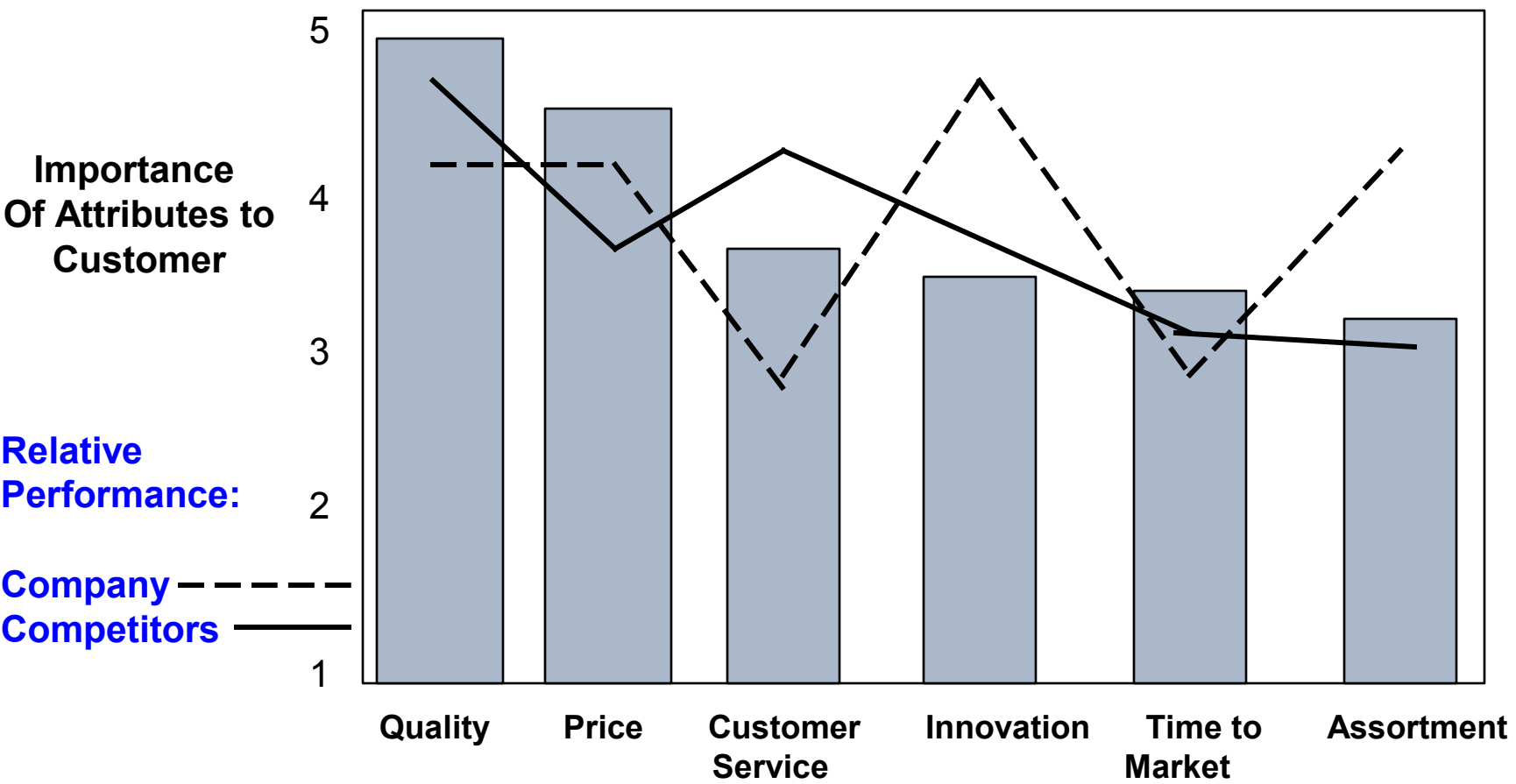
Which are the **Biggest, Fastest Growing, and Most Profitable Customer Segments?** More importantly Which will be?

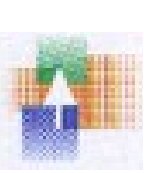




Law 3: Customers and Profit Pools Do Not Stand Still

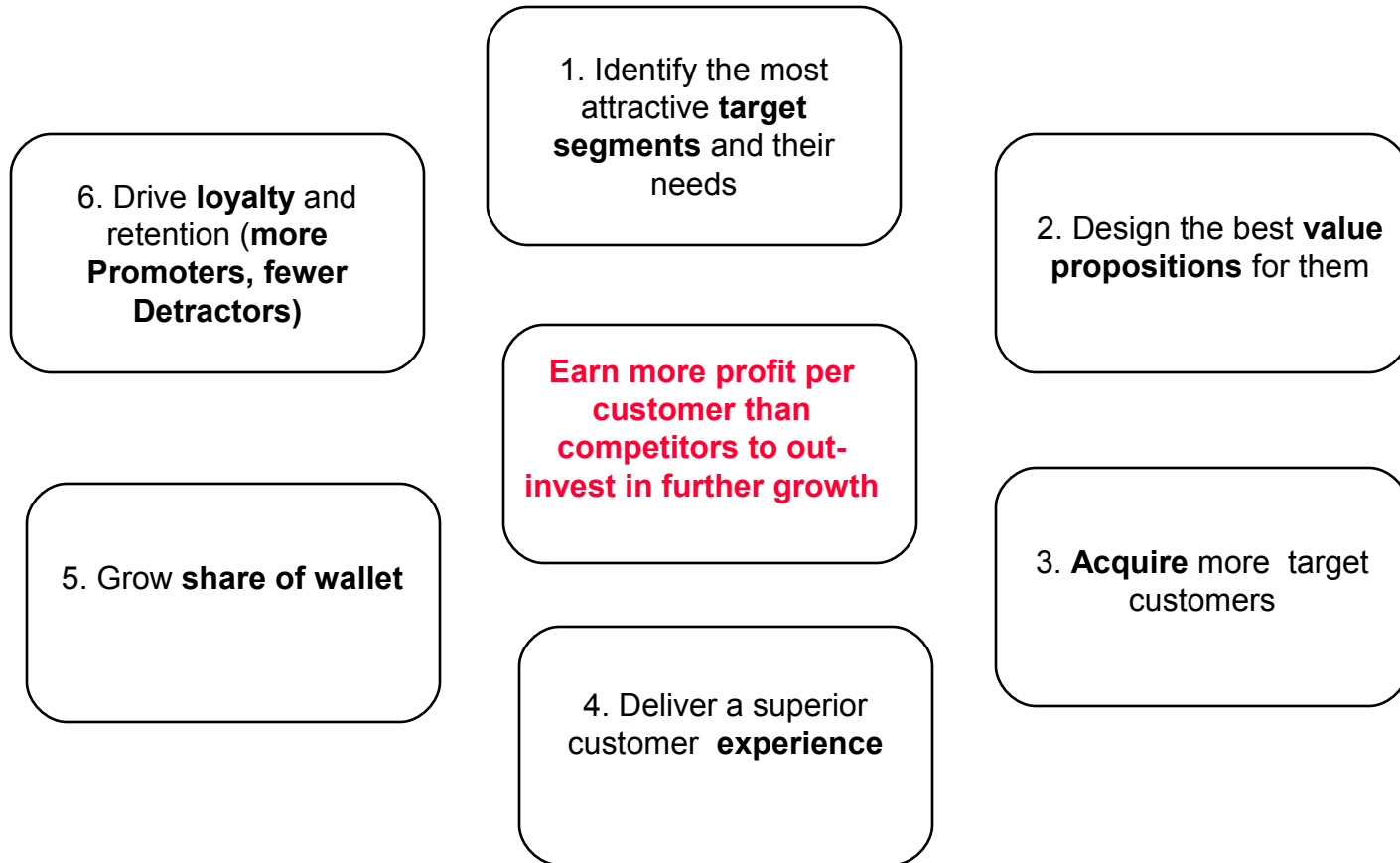
How Are Customers Needs Changing?
How Well Do We Meet Those Needs?

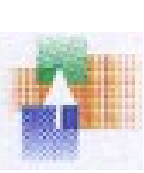




Law 3: Customers and Profit Pools Do Not Stand Still

Profitable High-Growth Companies Do Six Things Especially Well





Law 4: Simplicity Gets Results

How Do You Know You've Got a Complexity Problem and Opportunity for Improvement?

Considerations

Number of Offerings

Is your total number of SKUs or possible product configurations greater than 1,000 or over 50% more than that of your lowest complexity competitor?

Sales Volume

Do less than 20% of SKUs, build combinations, or product configurations make up more than 80% of your sales volume

Modularity

Have any of your competitors created modular or bundled products?

Where Complexity Shows Up

Does complexity show up early in the process, such as in engineering (creating change orders) or in assembly (creating unpredictability in the operation)? Do you have low or erratic effective capacity utilization?

Manufacturing

Retail

Do your fastest turning SKUs sell more than twice as often as your slowest? Are your inventory turns more than 10% slower than your lowest complexity competitor?

Do less than 20% of SKUs make up more than 80% of your sales volume?

Is your approach to customer segmentation aimed at "offerings for many to attract the many" rather than "delighting the few to attract the many"?

Do you find that you frequently have to discount to sell slow moving inventory?

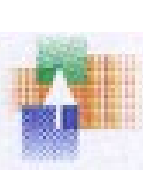
Services

Does your sales force struggle to understand and communicate you most profitable offerings to core customers because of the complexity of these product offerings?

Do less than 20% of service configurations make up more than 80% of your sales volume?

Can you bundle offerings to meet specific segment needs?

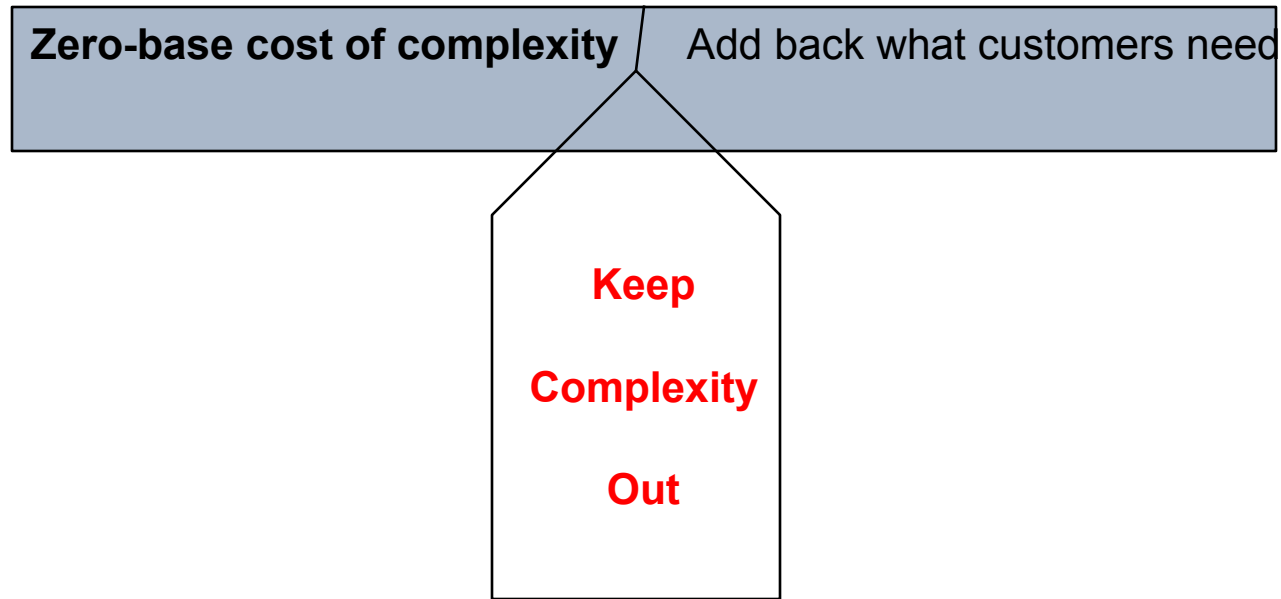
Do you have excessive error rates, low close rates, or frequent customer abandonment due to customer confusion?

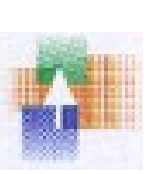


Law 4: Simplicity Gets Results

Model T Approach to Finding Your Innovation Fulcrum:

Point where products and services meet customer needs with the lowest amount of complexity

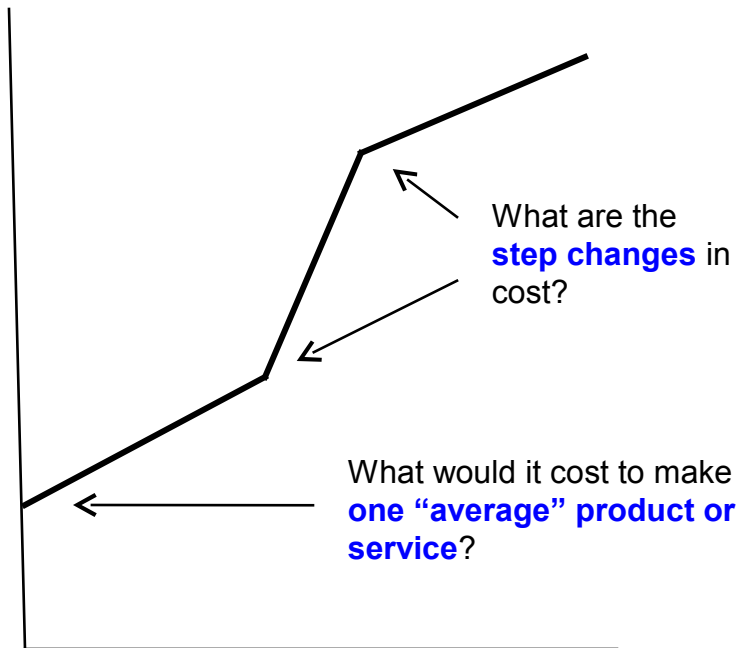




Law 4: Simplicity Gets Results

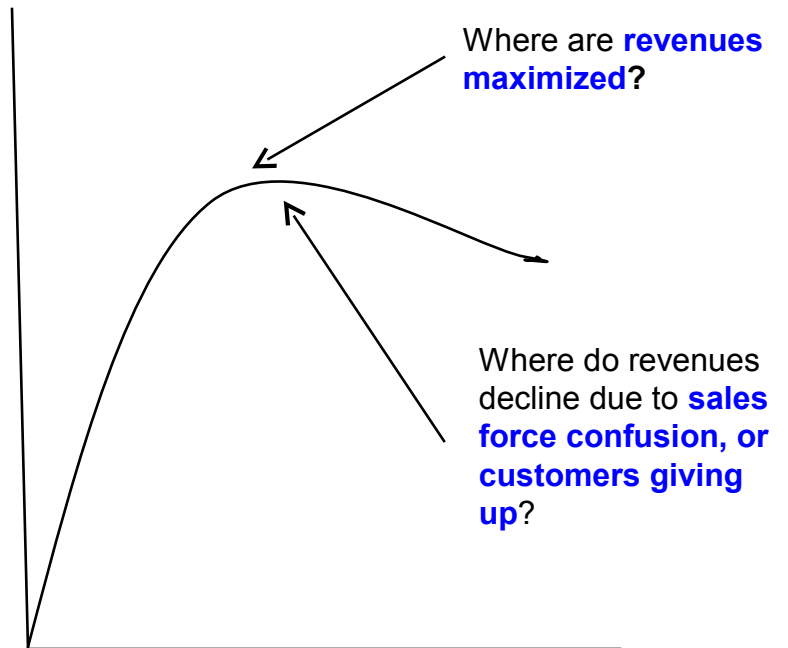
Complexity Impacts Both Costs and Revenues

Cost Per Unit

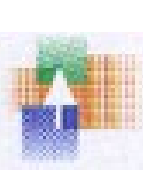


Number of Customer Choices

Total Revenues

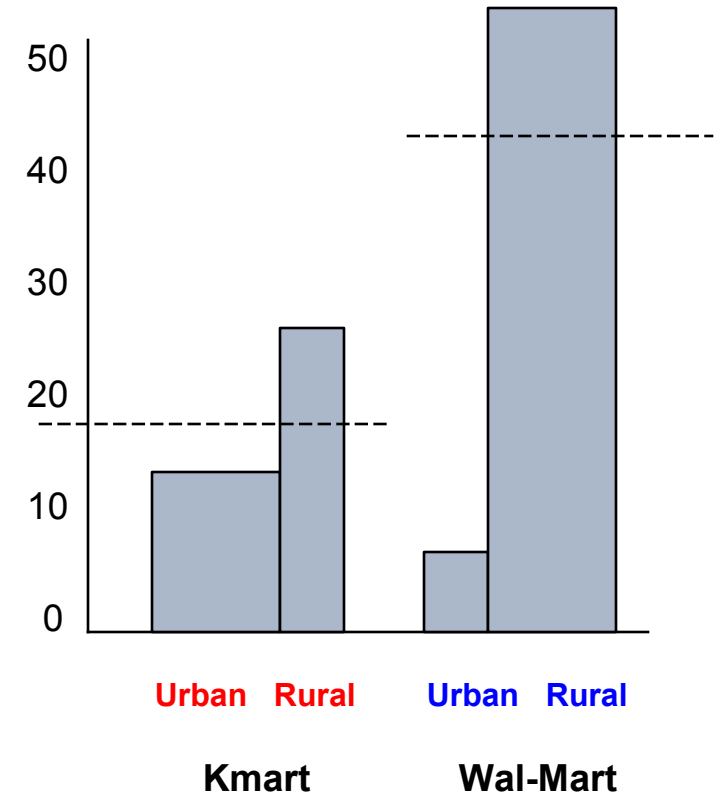
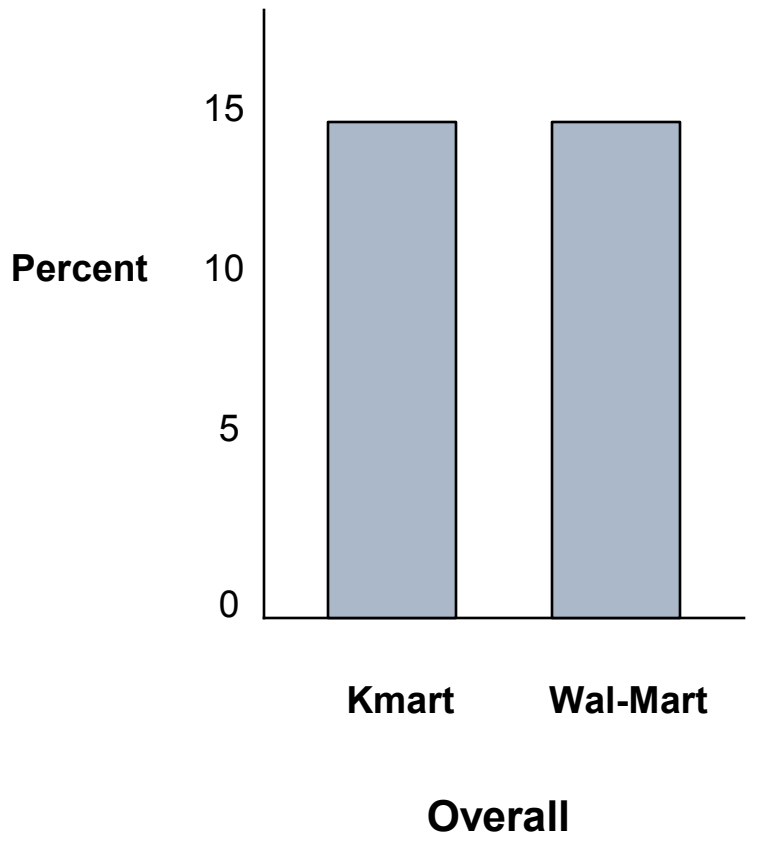


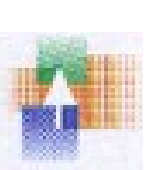
Number of Customer Choices



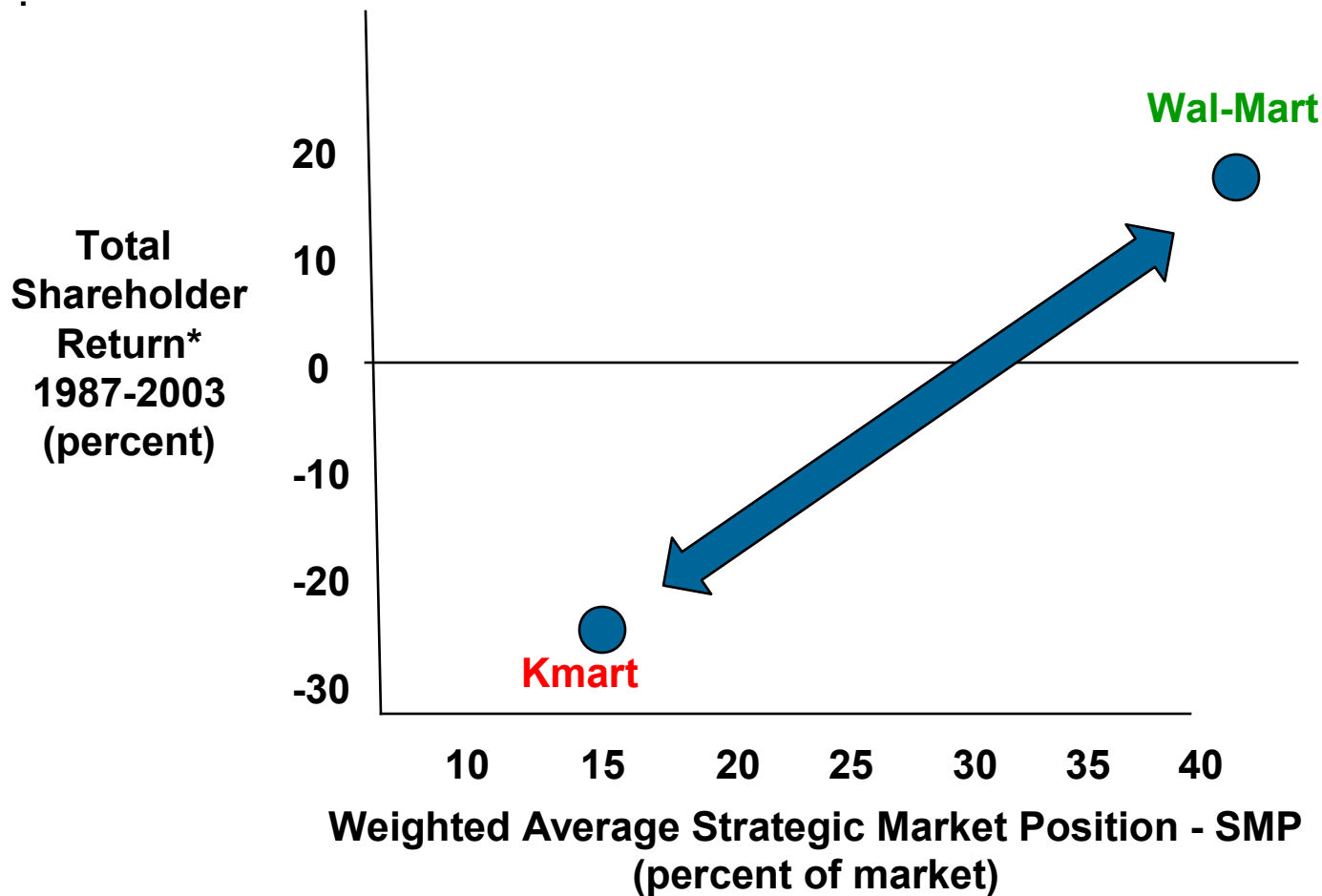
Law 5: Shareholder Value Hides Most of the Time

U.S. General Merchandising Retailing (1991)

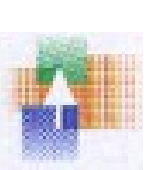




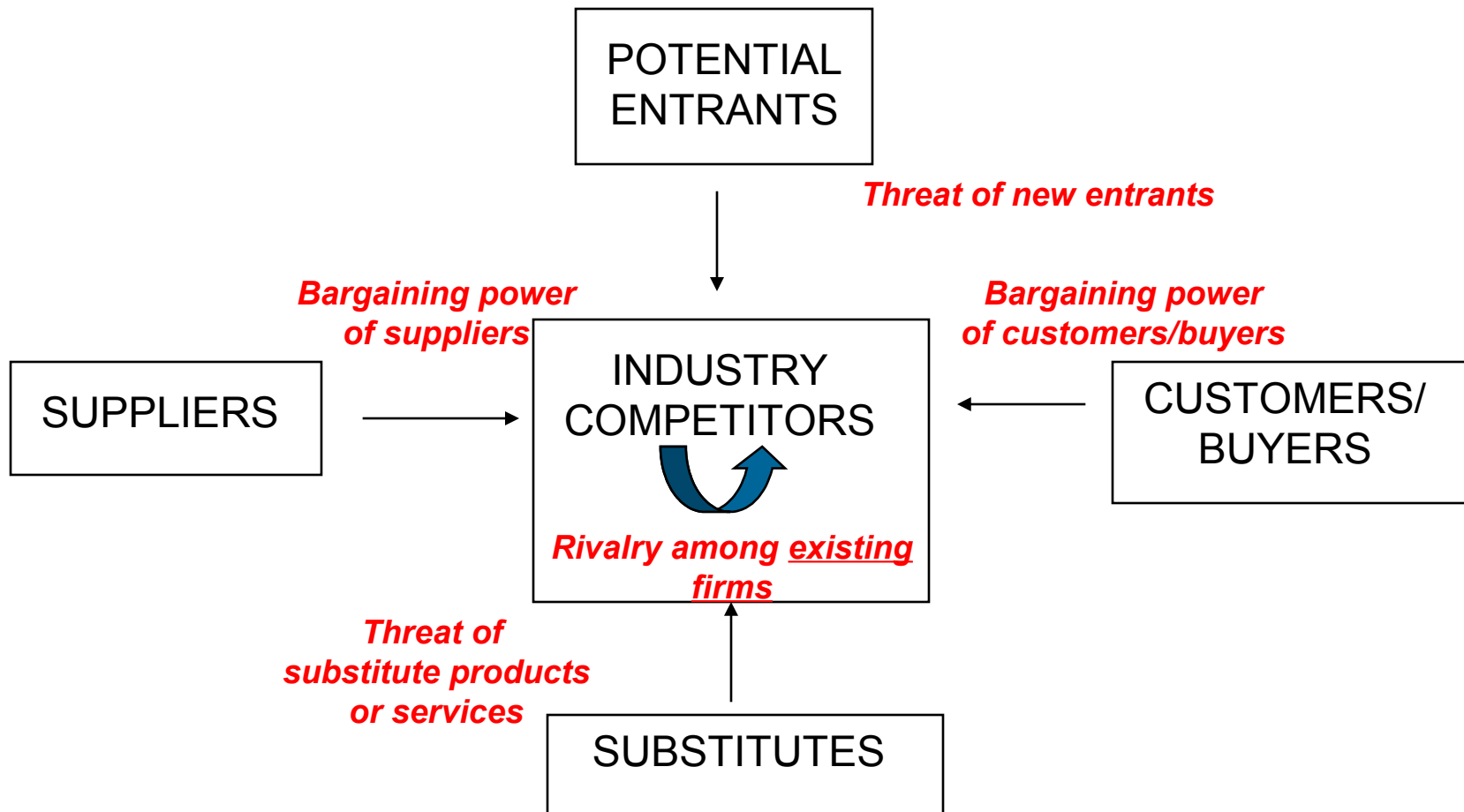
Law 5: Shareholder Value Hides Most of the Time



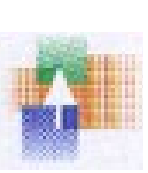
*Total Shareholder Return = Stock Price Appreciation + Dividends



Law 6: The Five Forces of Industry Structure Determine Average Industry ROIC

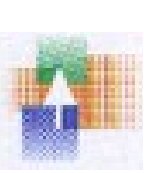


Source: Porter, *Competitive Strategy*, p.4, 1980

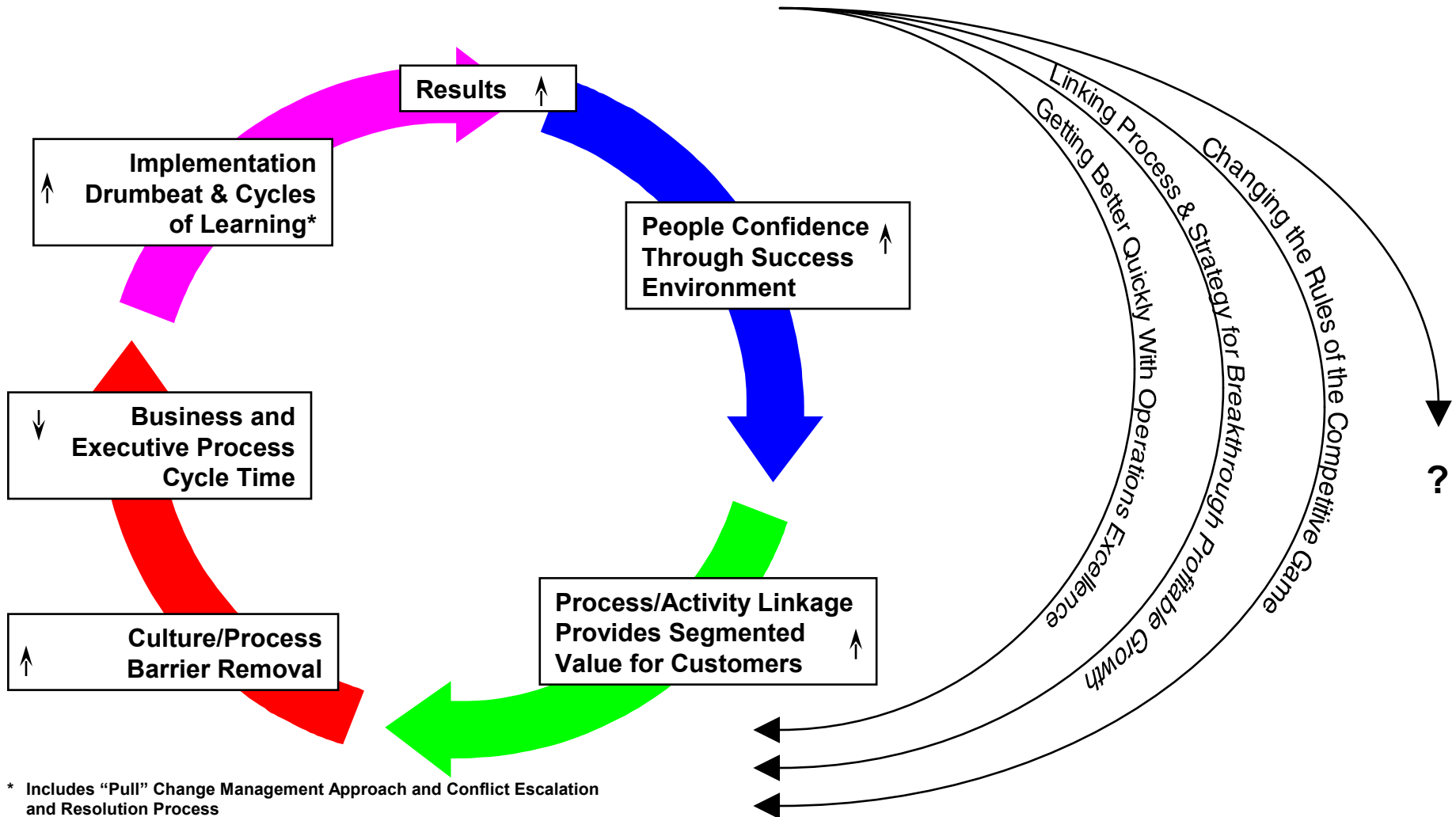


Potential Laws

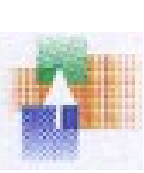
The following have the potential to be laws of strategy pending further research and observation in practice



Law 7: There is Improvement Potential In Every Established Business



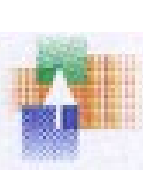
* Includes "Pull" Change Management Approach and Conflict Escalation and Resolution Process



Law 8: Four Kinds of Barriers Are Ever Present in the Established Firm That Impede Improvement

Subject Matter Barriers: These represent the “stuff” of your industry that have come into disagreement among key players who need to work together to produce results.

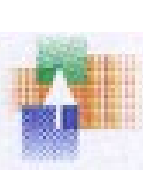
Process Barriers: Any impediment that causes cycle times, rework and cost to increase and customer satisfaction to decrease in the portfolio of executive, operating and support processes.



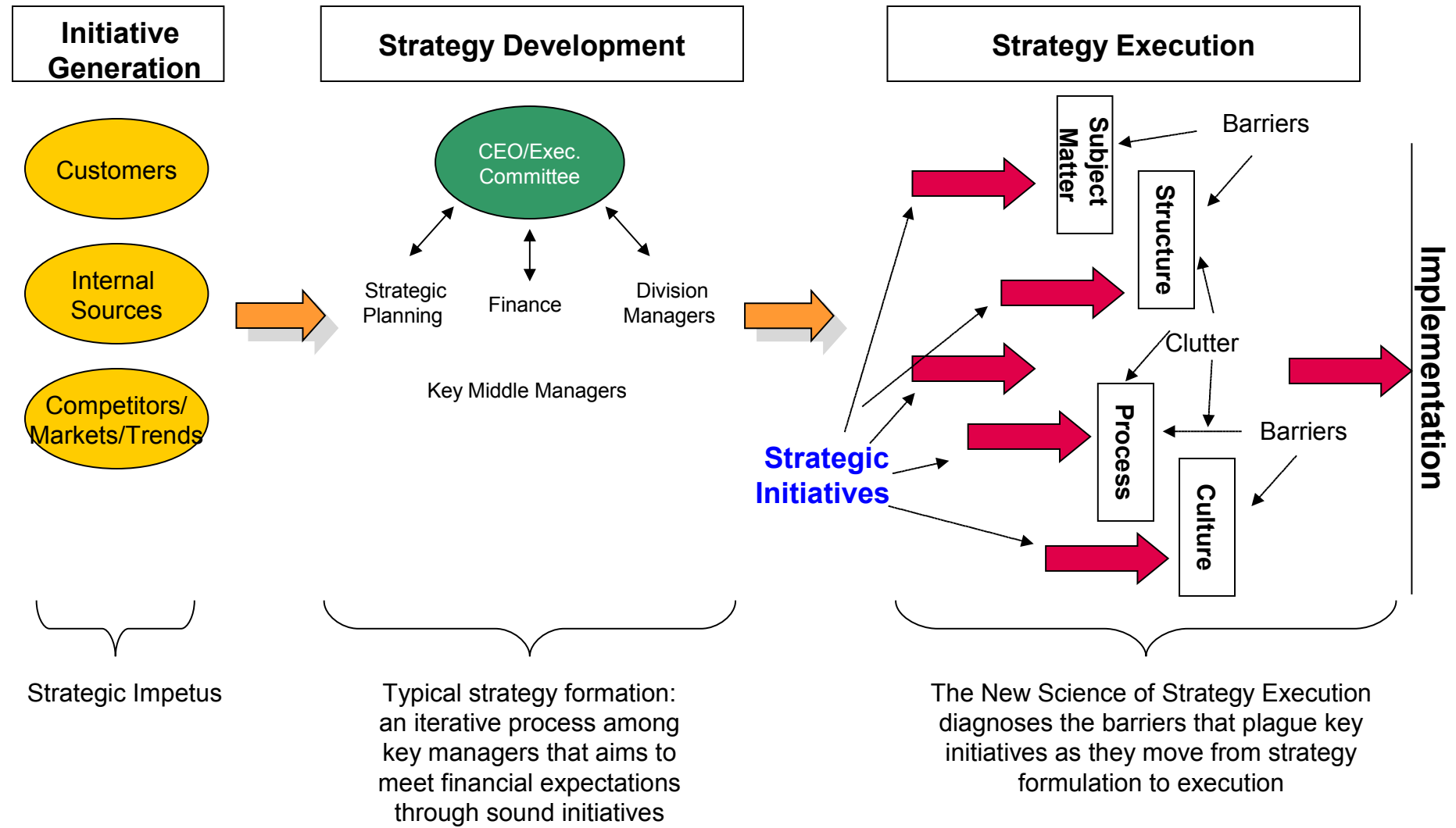
Law 8: Four Kinds of Barriers Are Ever Present in the Established Firm That Impede Improvement cont'd

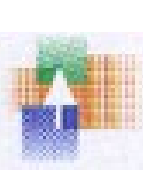
Structure Barriers: Periodically, firms find the way they are structured (by product, customer, technology or geography) have become too non-useful to make the required market and customer interfaces while keeping pace with faster market rhythms.

Culture Barriers: These are biases, blind spots and faulty mental models among executives that, in turn, cause inertia, delay, disastrous decisions, incorrect resource allocation, political infighting, chronic anxiety and fatigue that zaps resolve and courage to work on the difficult and many times “bet the company” issues.



Law 9: Strategy Execution and Strategic Change Management Must Be Led and Must Be Forceful



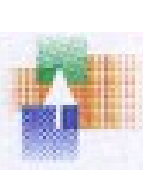


3. Candidates for the Laws of Strategy

Lessons Learned and Further Things to Think About and Do:

See the next slide for Lessons learned.

If you do not think laws of strategy exist or do not apply to your firm or industry, please think again. If your firm and industry are immune to the laws, you are lucky. Be poised though to pick up weak, early signals that your firm and industry are coming under the spell of one or more of these laws.



The Negative Effects of the Six Main Laws of Strategy

Strategy Law #6:
Your Industry "Nature" Determines the Average Profitability of All of the Competitors in Your Industry

(Average Industry ROIC Drops to Floor of Government Risk Free Bond Rates)

Strategy Law #1:
Prices and Costs Always Decline

(Individual Firm ROIC Too Low to Generate Cash Flow or to Attract Needed Capital)

Strategy Law #3:
Customers and Profit Pools Do Not Stand Still

(A Large Portion of Your Customers Can Disappear Seemingly Overnight)

Strategy Law #2:
Competitive Position Determines Your Options

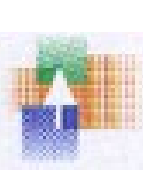
(Trying to become something you are not too quickly can lead to serious blunder or failure)

Strategy Law #5:
Dominate Something, Do Not Be Spread Too Thin

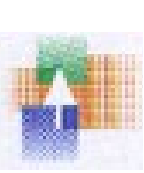
(Too small a size relative to potential size or too small a "sphere of influence" causes cost per unit sold to be too high and customer willingness to pay too low)

Strategy Law #4:
Complexity Is A Killer

(Cost per unit sold is too high and customers can defect due to confusion or frustration)



4. Environmental Carrying Capacity and Market Rhythm



4. Environmental Carrying Capacity and Market Rhythm

Soundbite:

Environmental Carrying Capacity is the condition of your industry or competitive space that allows for hospitable competition or conversely causes survival of the fittest winner take all tactics to be manifest

Market Rhythm is the true drumbeat in your industry or competitive space and is estimated at 4 to 5 times as fast as how often your best customers buy

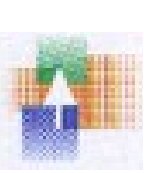
Fatal Flaws If Soundbite is Ignored:

Carrying Capacity: High probability of a mis-match between your strategy framework and what is required to win

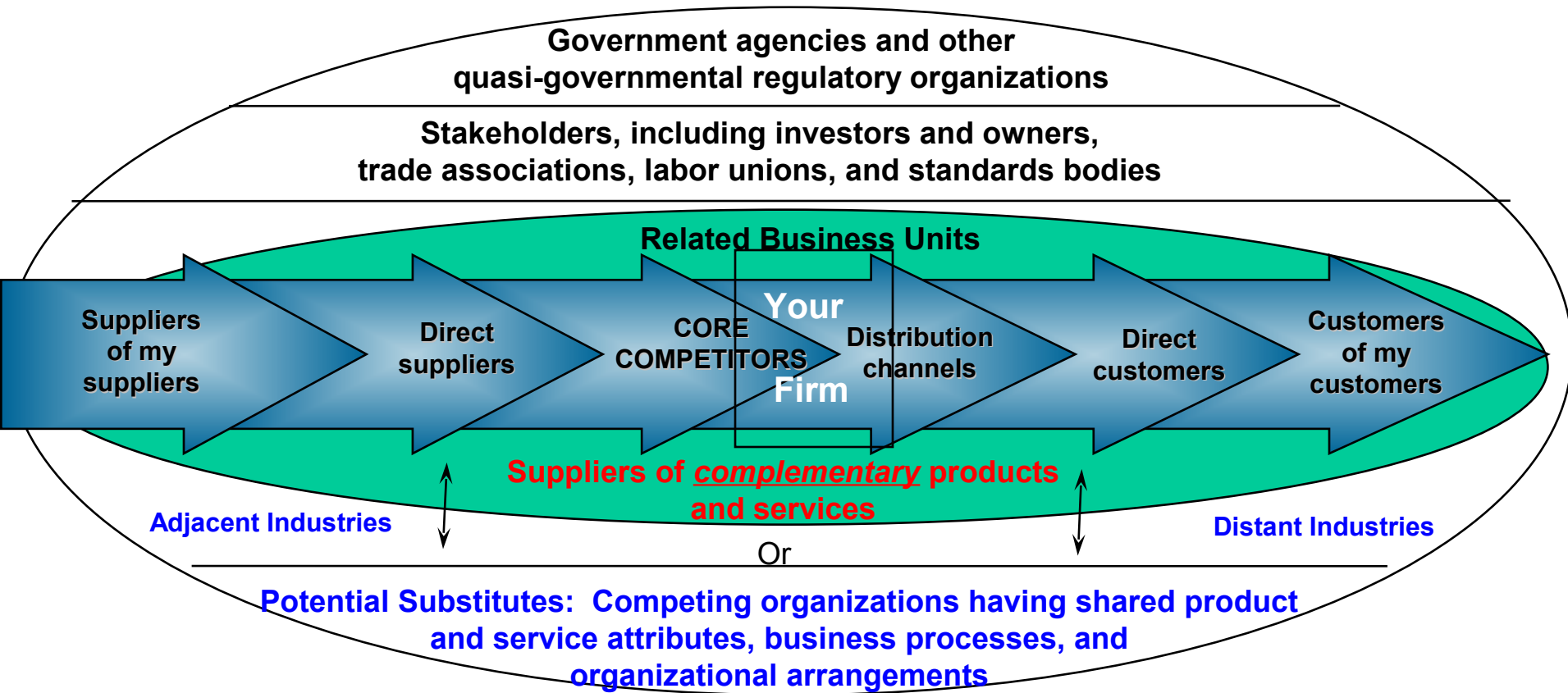
Market Rhythm: High probability of everything in your firm being out of PALS with your market rhythm. PALS = Prioritized, Aligned, Linked and Synchronized

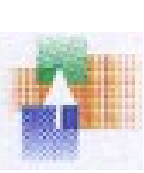
What You and Your Firm Should Do Right Now:

Measure your Environmental Carrying Capacity and Market Rhythm and move to have your strategy framework be matched to it and all of your processes be PALS with your market rhythm

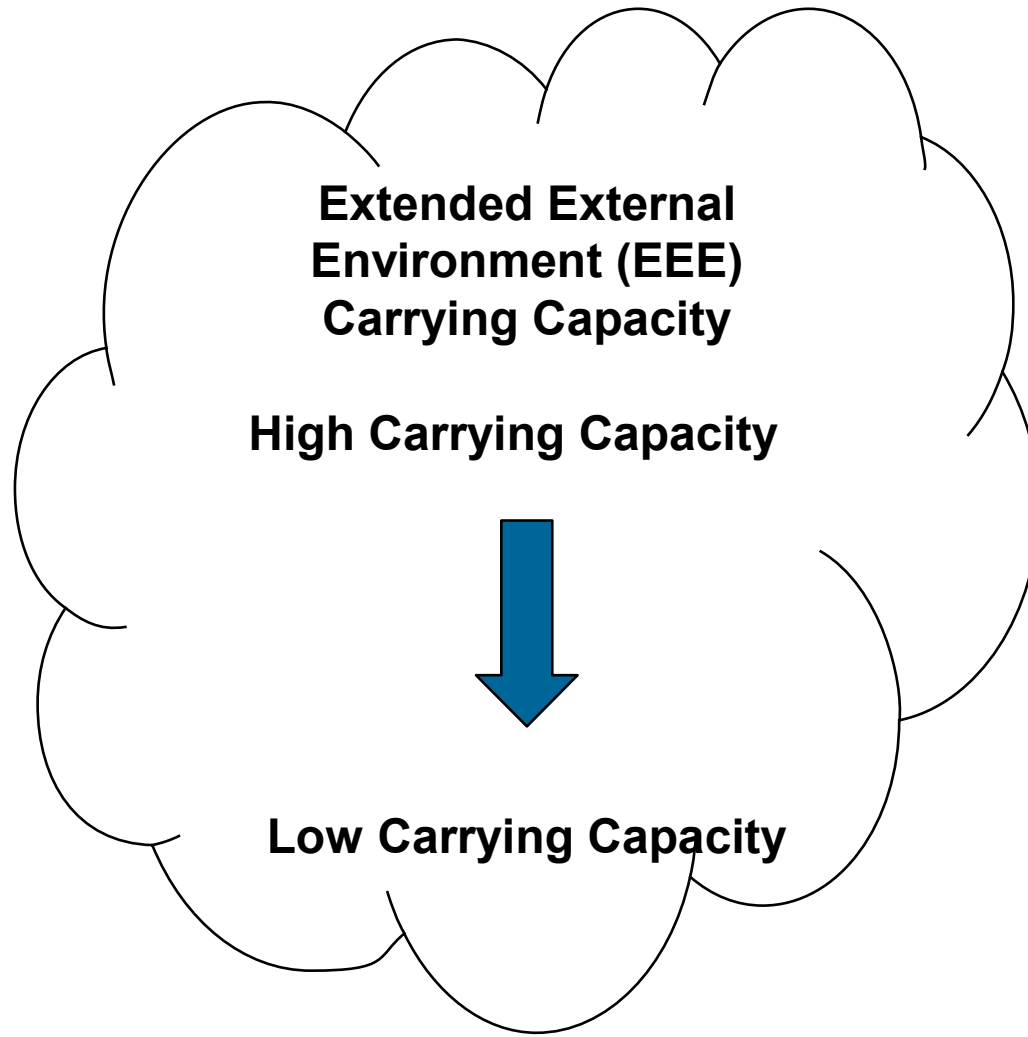


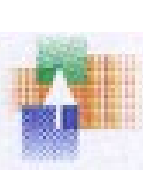
Extended Enterprise Environment (EEE) Describes The “Playing Field”



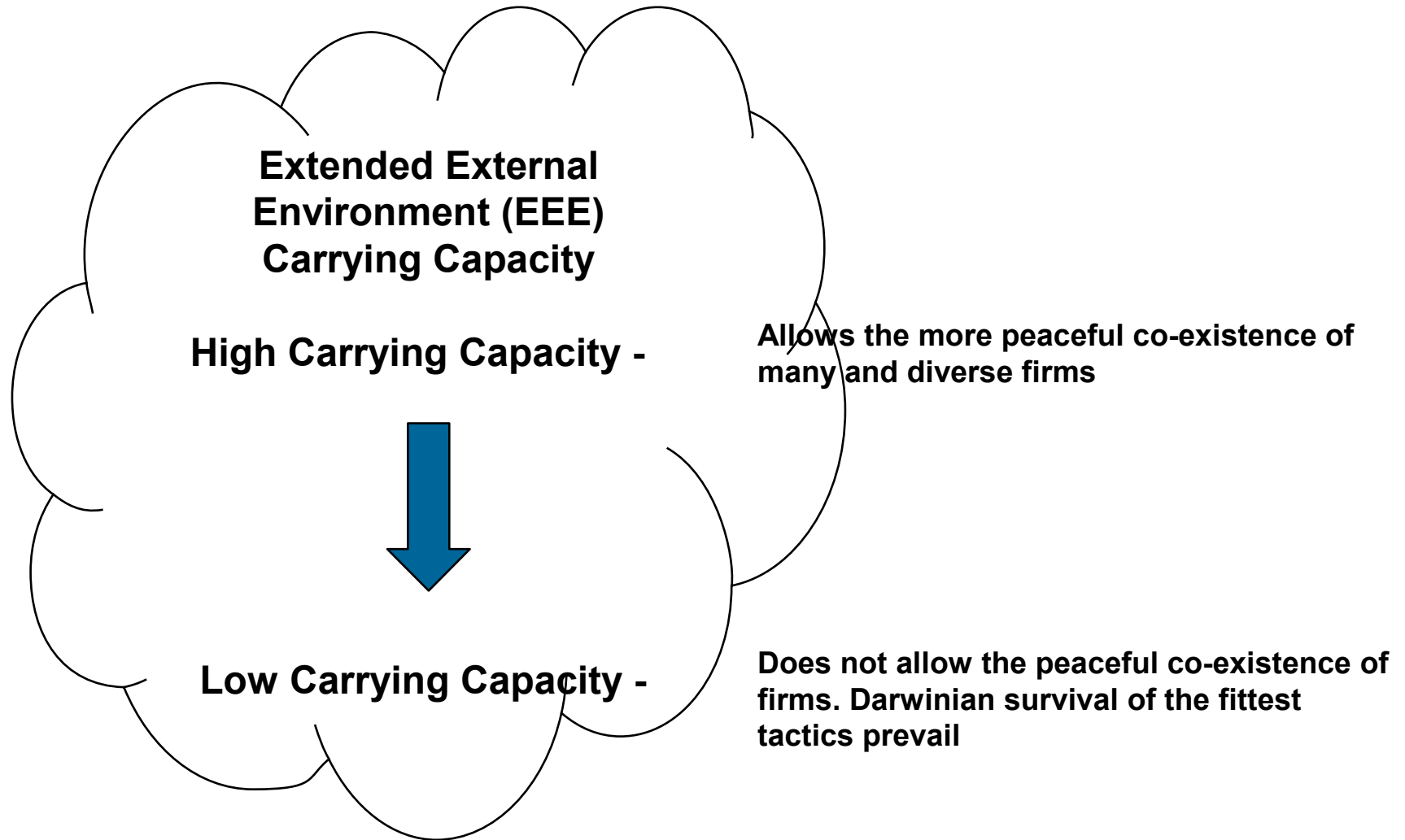


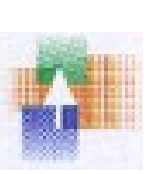
EEE Carrying Capacity





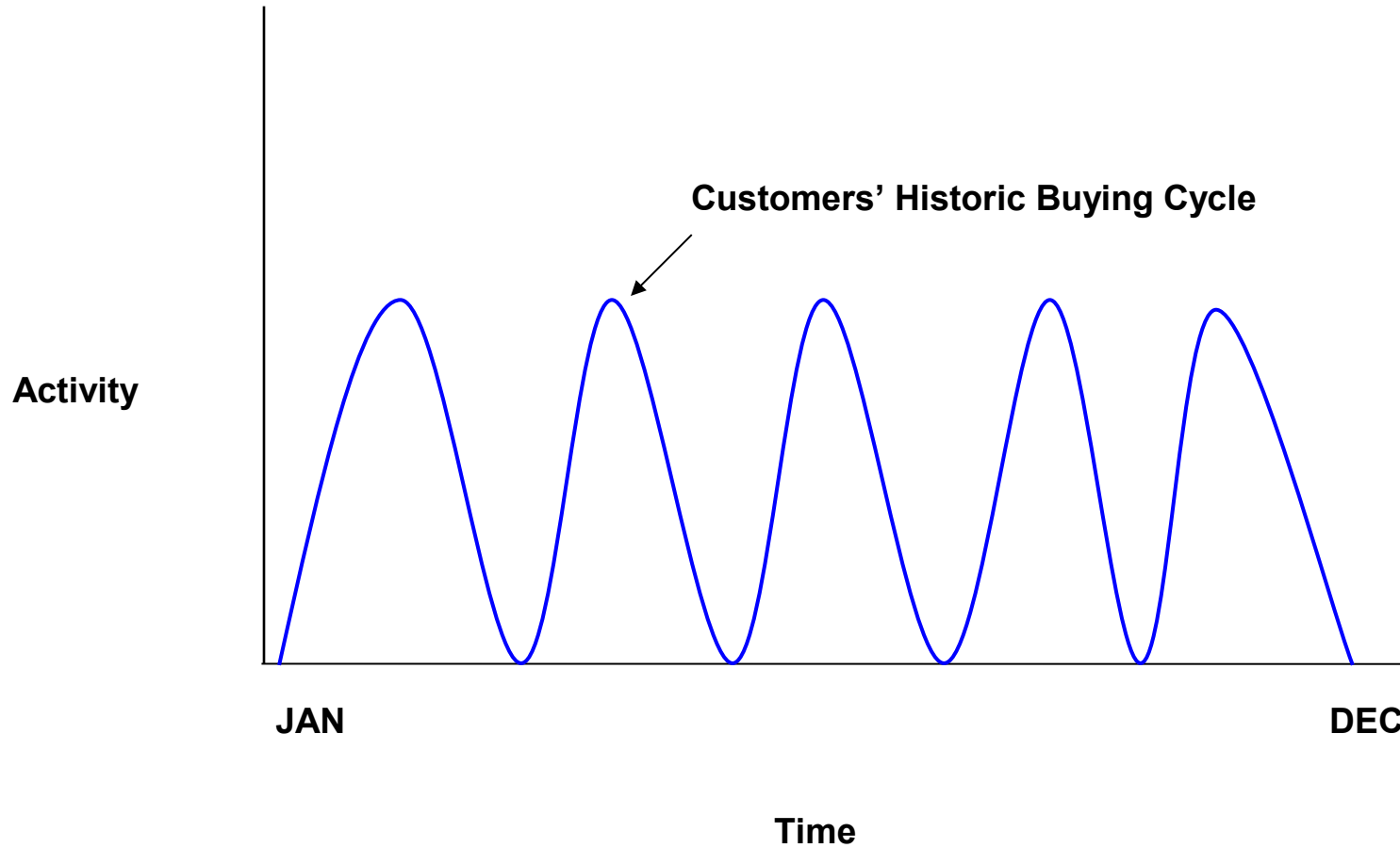
EEE Carrying Capacity

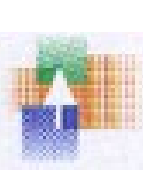




Defining and Measuring Your Market Rhythm: Key to Disciplined Strategy Execution

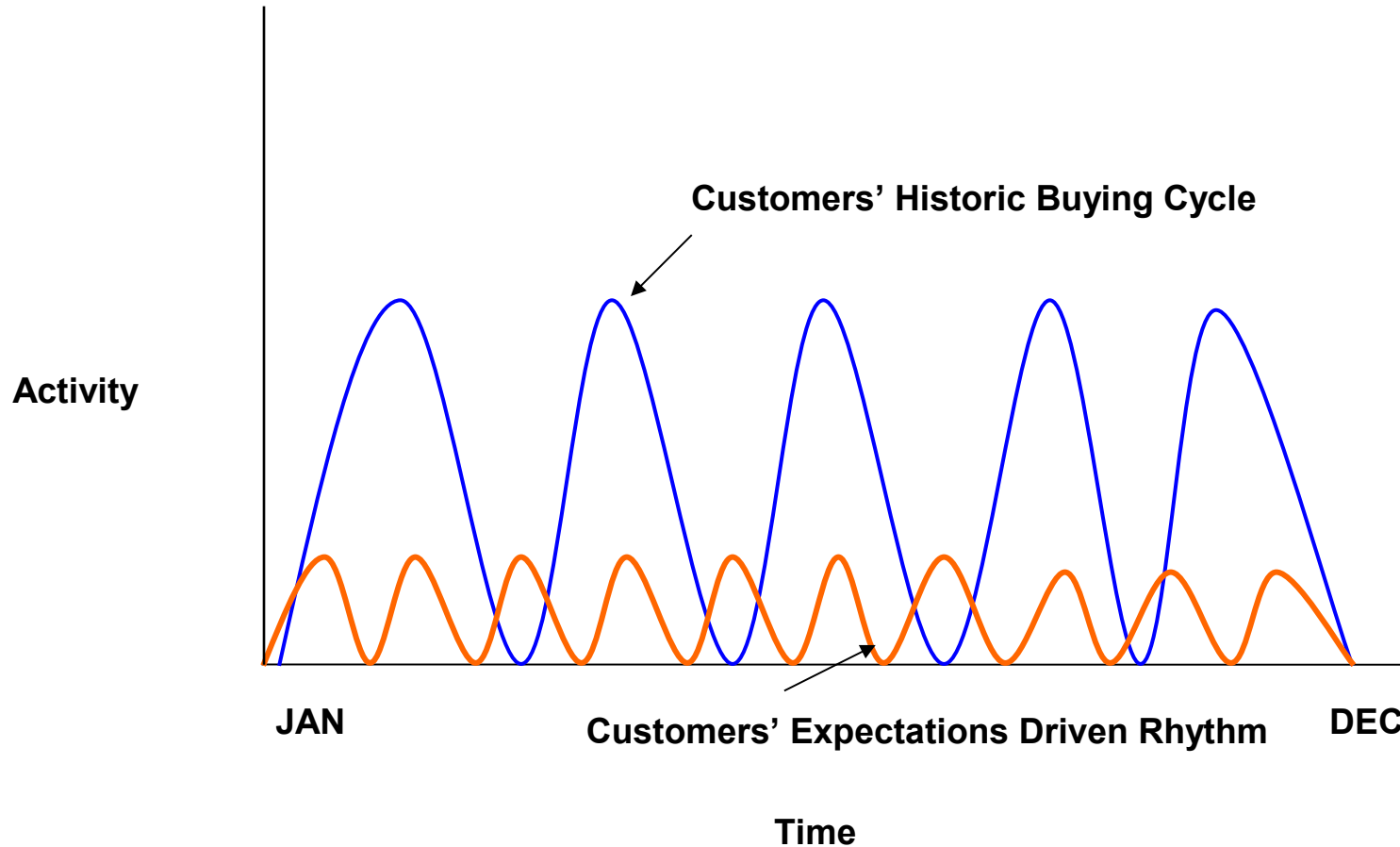
Tool: Market Rhythm





Market Rhythm is about 4 to 5 times as fast as how often your best customers buy

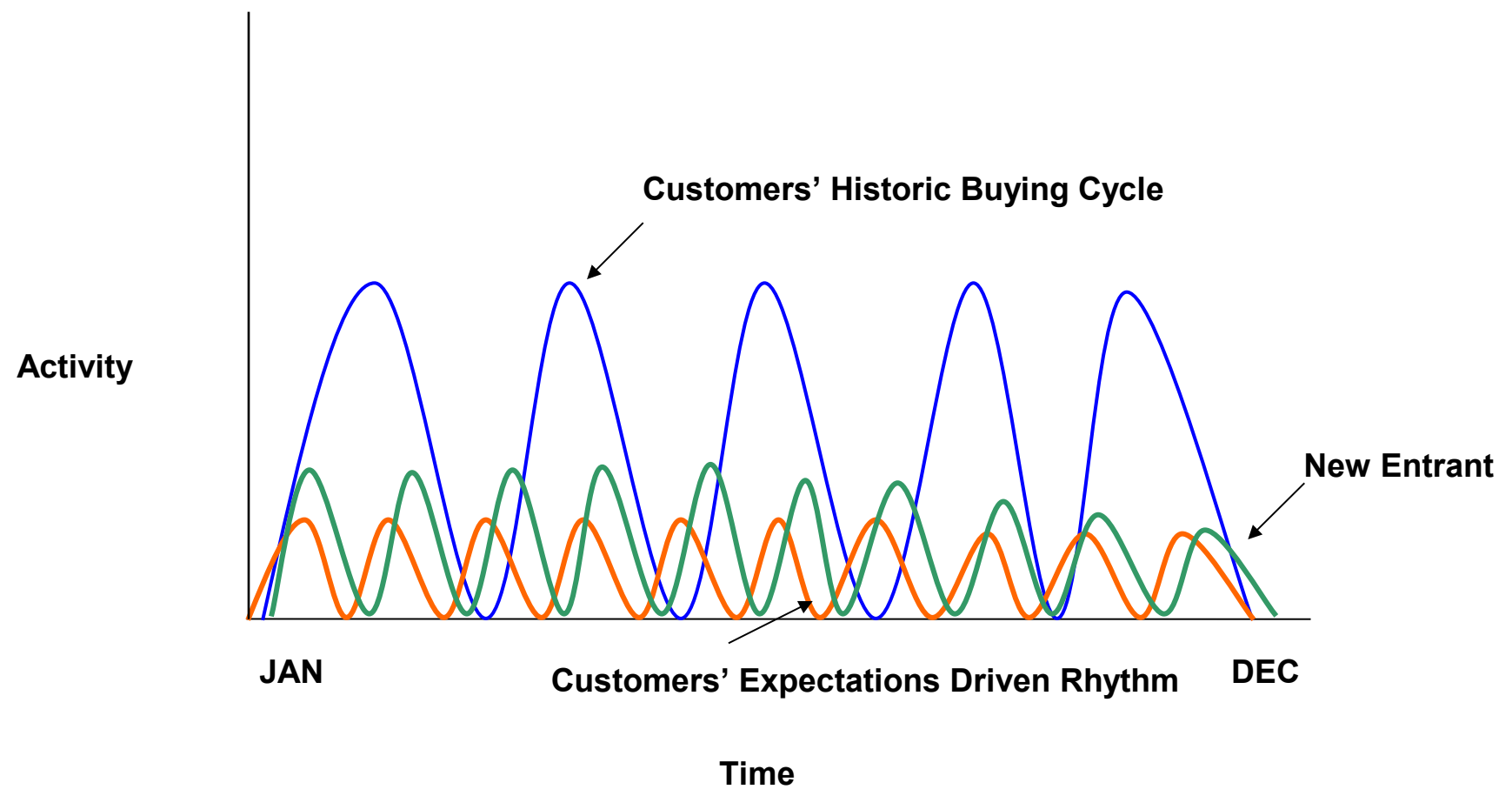
Tool: Market Rhythm

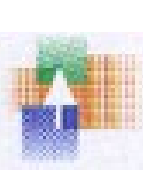




New entrants can enter and change the rules of the game

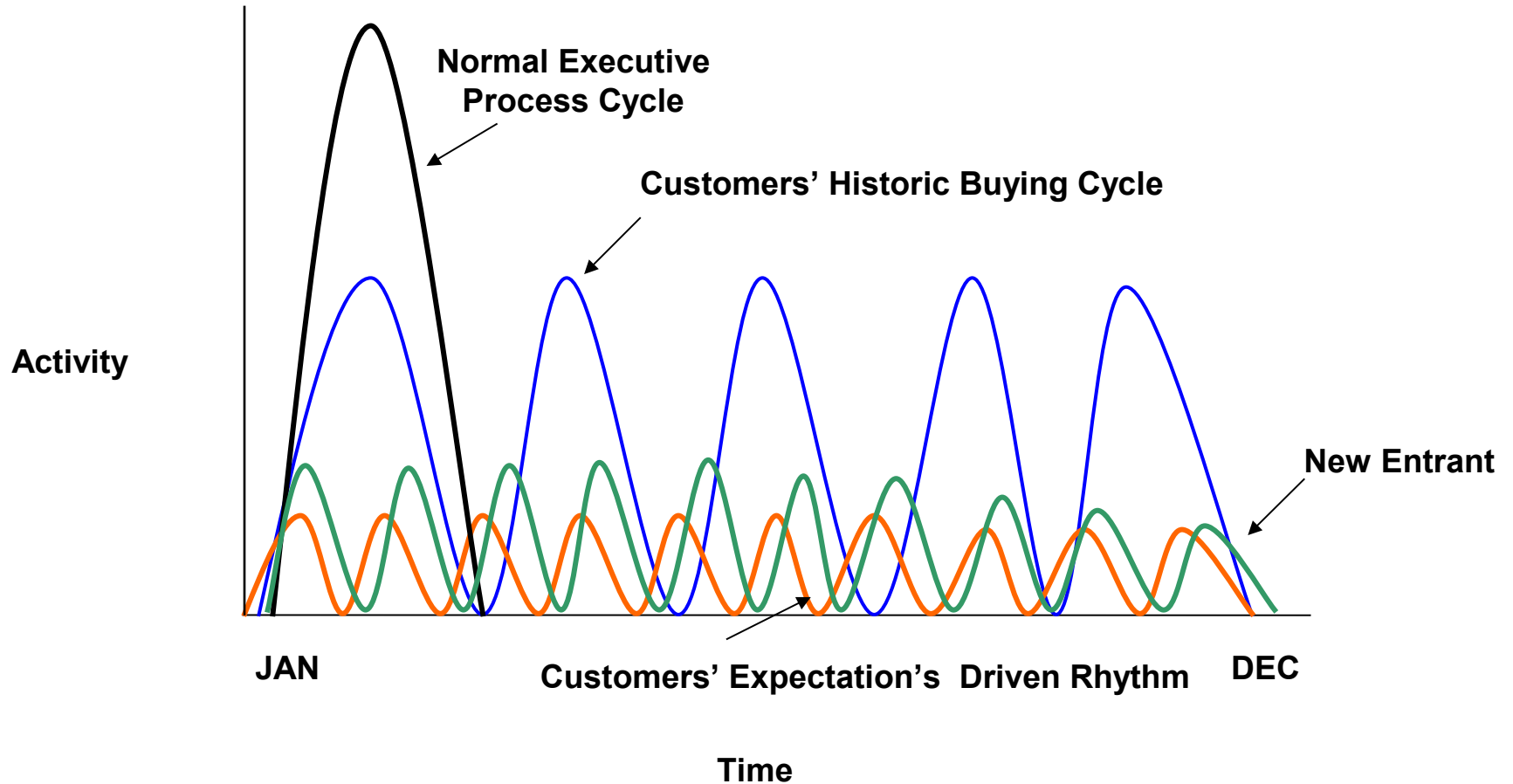
Tool: Market Rhythm

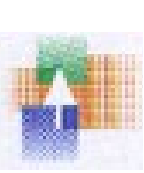




Traditional executive, operating and support processes are typically way out of sync

Tool: Market Rhythm





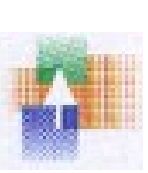
4. Environmental Carrying Capacity and Market Rhythm

Lessons Learned and Further Things to Think About and Do:

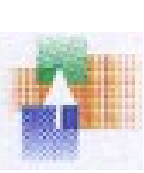
There is an alignment and matching between your firm's strategy framework and the nature of your Environmental Carrying Capacity that should occur. Firms like Dell created a lot of shareholder value in a very Low Carrying Capacity environment, but this is not the norm. You can choose to ignore the mandate for this alignment and matching, but this needs to be an informed choice.

Being out of PALS with fast market rhythms causes all kinds of issues: poor strategy execution, disjointed problem solving and the possibility that a major new entrant can enter against you that is barriers free and is in total PALS with the market rhythm.

My book, *The New Science of Strategy Execution: How Established Firms Become Fast, Sleek Wealth Creators* can help. I do not know of many other materials that cover these two elements of the Knowledge Taxonomy. Several of the chapters are attached in this website pro bono



5. Timing of Four Competitive Thrusts



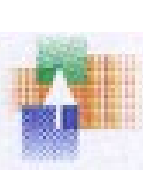
5. Timing of Four Competitive Thrusts

Soundbite*:

There seem to be four major competitive thrusts at the business unit level: “Easy” Profitable Growth, Process Engineering, Cost Reduction and Turnaround Management in the context of the competitive dynamics of your EEE. Your firm must match the *timing* of these thrusts as the EEE goes from High Attractiveness/High Carrying Capacity along a path that ends up at Lowest Attractiveness/Lower Carrying Capacity and from Small in Firm Size, Scope and Complexity to Large Size, Scope and Complexity.

Fatal Flaws If Soundbite is Ignored:

It seems that there is a limit to the manageability of large sized, scoped and high complexity for-profit firms. About 50% of the time as the firm gets large in size, scope and complexity, it also has moved into lower attractiveness/lower carrying capacity environments. About 35% of the time we find the best course of action is to divest assets and units that are destroying shareholder value and retreat to only those EEEs where the carrying capacity is higher. Thus the firm re-invents itself as smaller in size, scope and complexity in higher carrying capacity environments.



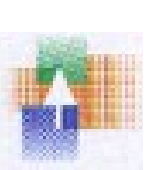
5. Timing of Four Competitive Thrusts cont'd

What You and Your Firm Should Do Right Now:

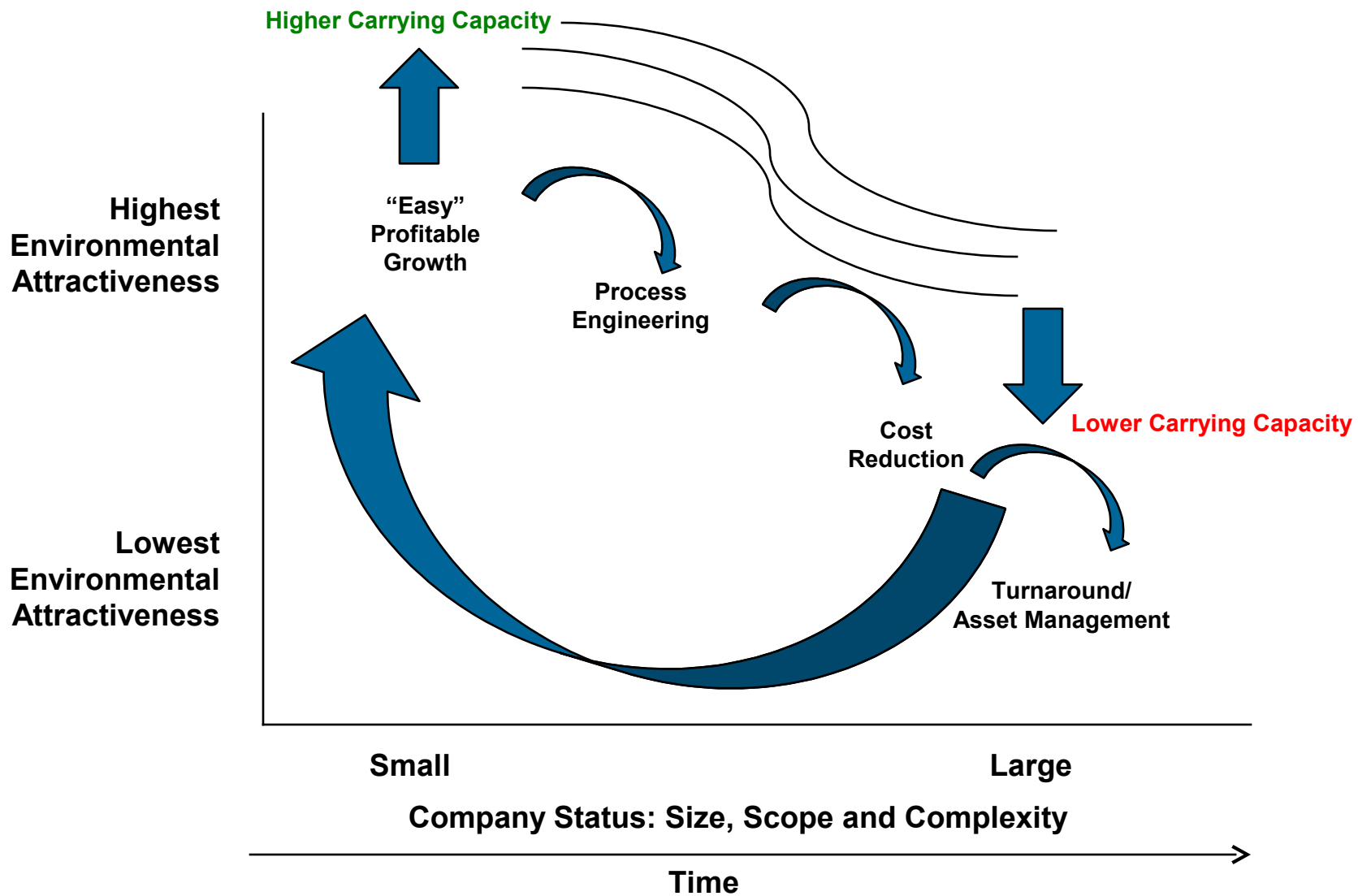
Given the caveat below that this element needs more research for corroboration, your firm should pause to consider if its current competitive thrust is actually bearing fruit for you. For instance to try to force fit innovation and top line revenue initiatives into a competitive space that is Low Attractiveness/Low Carrying Capacity, could be inviting frustration and headache. And to try to imitate the processes of a General Electric while in a High Carrying Capacity environment where the firm is small in size, scope and complexity could bring unneeded confusion and complexity.

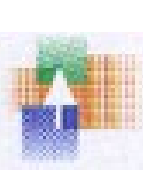
Optional Detail Follows:

* Admittedly this Element of the Knowledge Taxonomy needs a little more corroborating research for me to be totally comfortable suggesting it can add value for you. But it has seemed to work well for me.



The Firm in the Context of the EEE





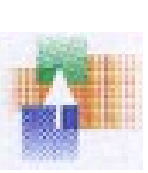
5. Timing of Four Competitive Thrusts

Lessons Learned and Further Things to Think About and Do:

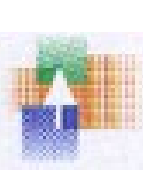
A classic example of this element is the old International Harvester company. They were in a variety of tractor and truck businesses. Through time many of the environmental carrying capacities they ended up with were very low and inhospitable. They grew to be a large, widely scoped and complex organization. They sold everything except the truck business and renamed it Navistar.

If your firm is currently encountering problems and nagging frustrations, a check on the compatibility of your dominant thrust with the nature of your environmental carrying capacity could yield some fruitful insights.

This Component is the age old debate between is competition “determined” for us or do we in essence have “free will” to strategically choose anything we think we can execute well. We will offer more insights into this Component over time.



6. Executive, Operating and Support Processes Being PALS With Market Rhythm



6. Executive, Operating and Support Processes Being PALS With Market Rhythm

Soundbite:

PALS = Prioritized, Aligned, Linked and Synchronized. Your portfolio of Executive, Operating and Support processes must be PALS with your firm's Market Rhythm. PALS with your Market Rhythm allows integrating the speed of the Process Revolution with fast Market Rhythms.

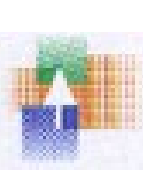
Fatal Flaws If Soundbite is Ignored:

Your firm has a high probability of not being able to lead and manage at the speed of change. It could very easily fall behind your faster and more agile competitors in just about everything – new product introductions, execution, acquisitions, etc.

What You and Your Firm Should Do Right Now:

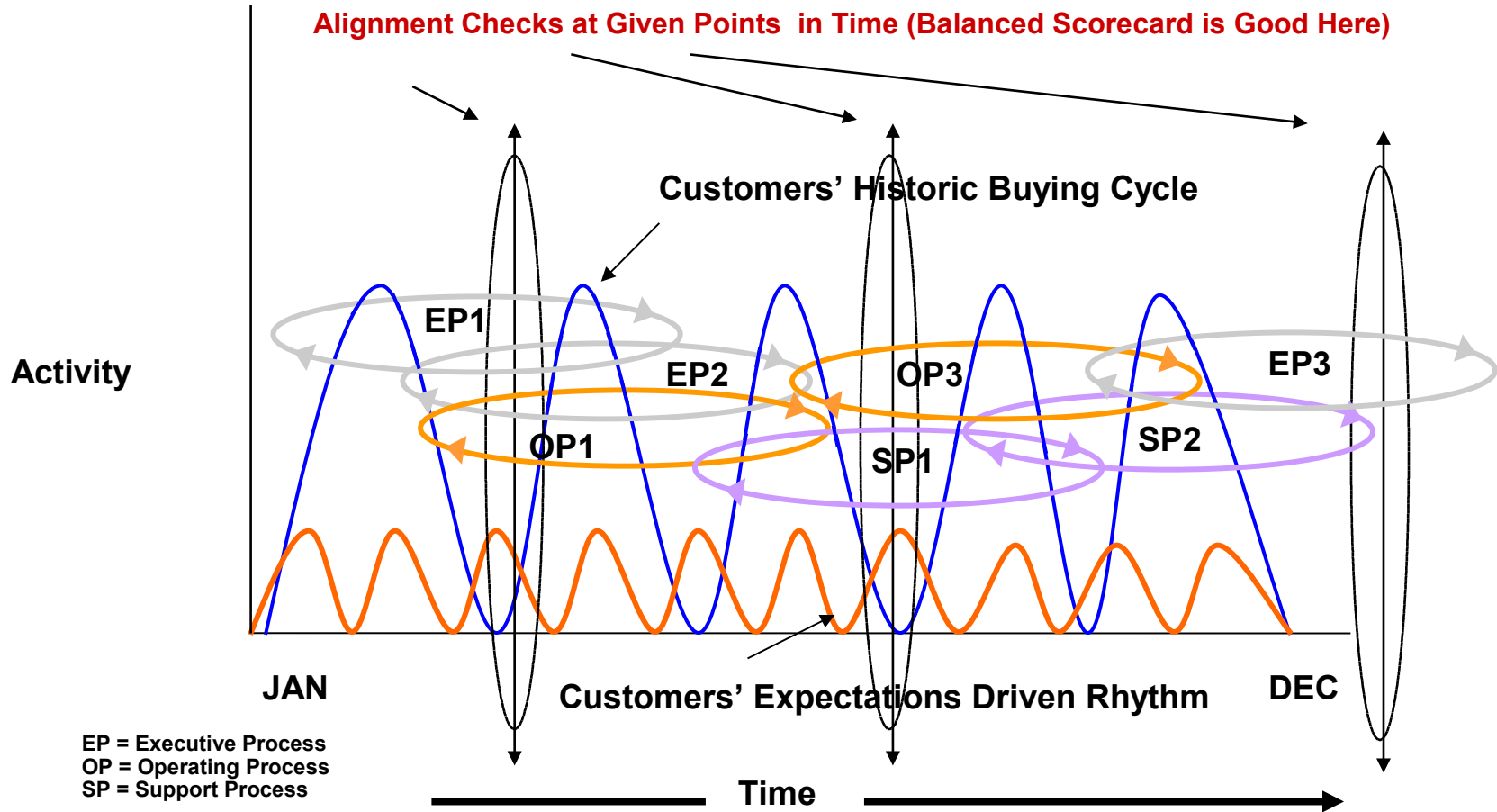
Map your portfolio of Executive, Operating and Support processes, measure their baseline cycle times and amount of rework and compare to your Market Rhythm drumbeat and your fastest and most agile competitors

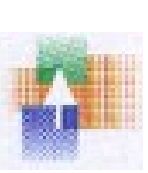
Optional Detail Follows:



Processes Becoming PALS™ With Fast Market Rhythms

* PALS™ = *Prioritized, Aligned, Linked and Synchronized*

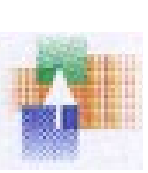




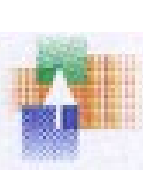
6. Executive, Operating and Support Processes Being PALS With Market Rhythm

Lessons Learned and Further Things to Think About and Do:

Not embracing the Process Revolution and not mapping your portfolio of Executive, Operating and Support processes leaves you know means to know how fast and agile your firm is at the current time period (baseline condition). As such, you cannot compare this baseline with how fast and agile you need to be. For example, a leading lighting manufacturer found that it took on average 7 years for any key lighting strategic initiative to be developed, launched and on it way to break even much less to earn its required rate of return. We benchmarked against a larger competitor and several smaller firms and found that the required cycle time needed to one one year. The firm needed to take 6 years of out its total cycle time.



7. Cross Process Impacts



7. Cross-Process Impacts

Soundbite:

The Process Revolution stated in the early 1990s got us past functional silos. This is not enough in today's fast market rhythm environments. You must lead and manage and extract the huge benefits of managing cross-process impacts in your Operating Processes to serve customers efficiently and effectively.

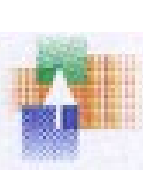
Fatal Flaws If Soundbite is Ignored:

I would not say there is a fatal flaw here. Ignore this Component and you are leaving a lot of money on the table in terms of waste, wasted opportunity to execute on your innovation efforts and service your customers much, much better

What You and Your Firm Should Do Right Now:

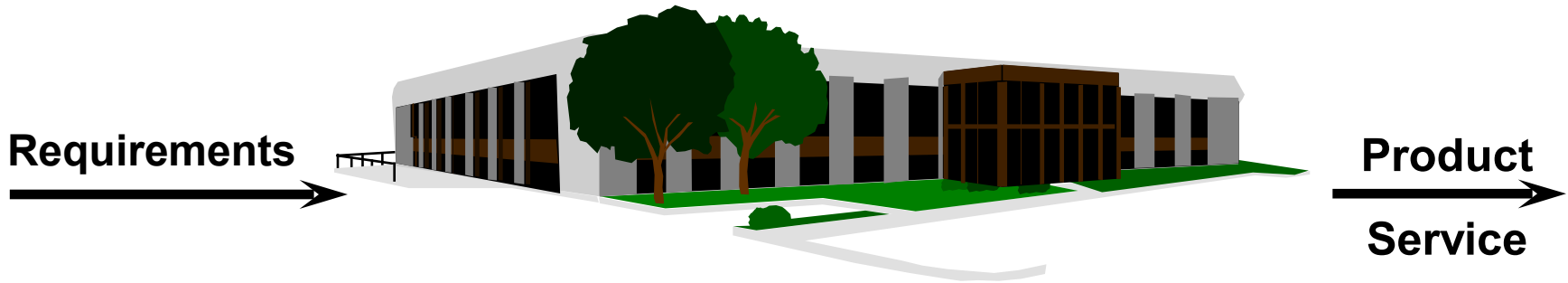
Start learning the science of where processes impact each other and how this linkage can reduce waste, increase cycle time and really leverage your investments in becoming a process driven company

Optional Detail Follows:

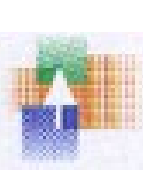


The Way Your Customer Sees Your Business

Your Firm

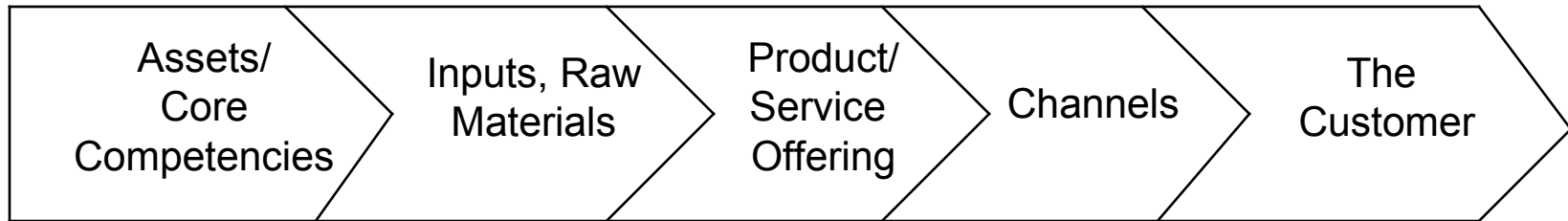


- Right the First Time
- Competitive Price
- Meets Requirements
- Fast and Responsive
- Guaranteed Satisfaction

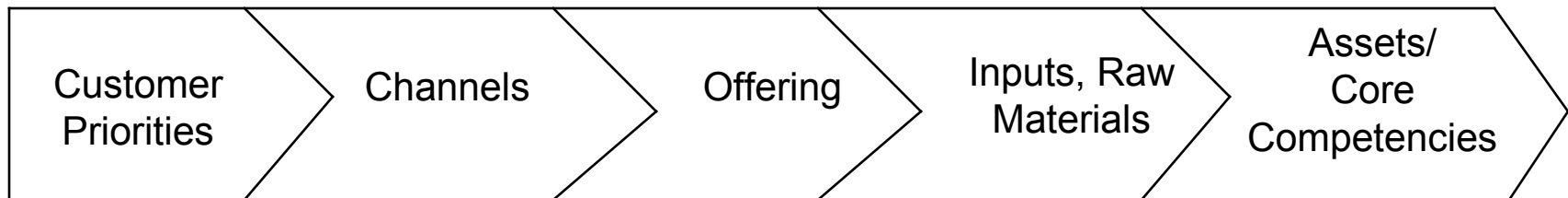


Two Alternative Views of the Company Value Chain

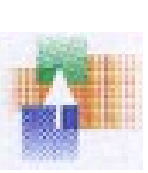
An Alternative Traditional View
Start with Assets, Core Competencies



An Alternative View of the Value Chain
Starting with the Customer: **Great View for the Differentiator**

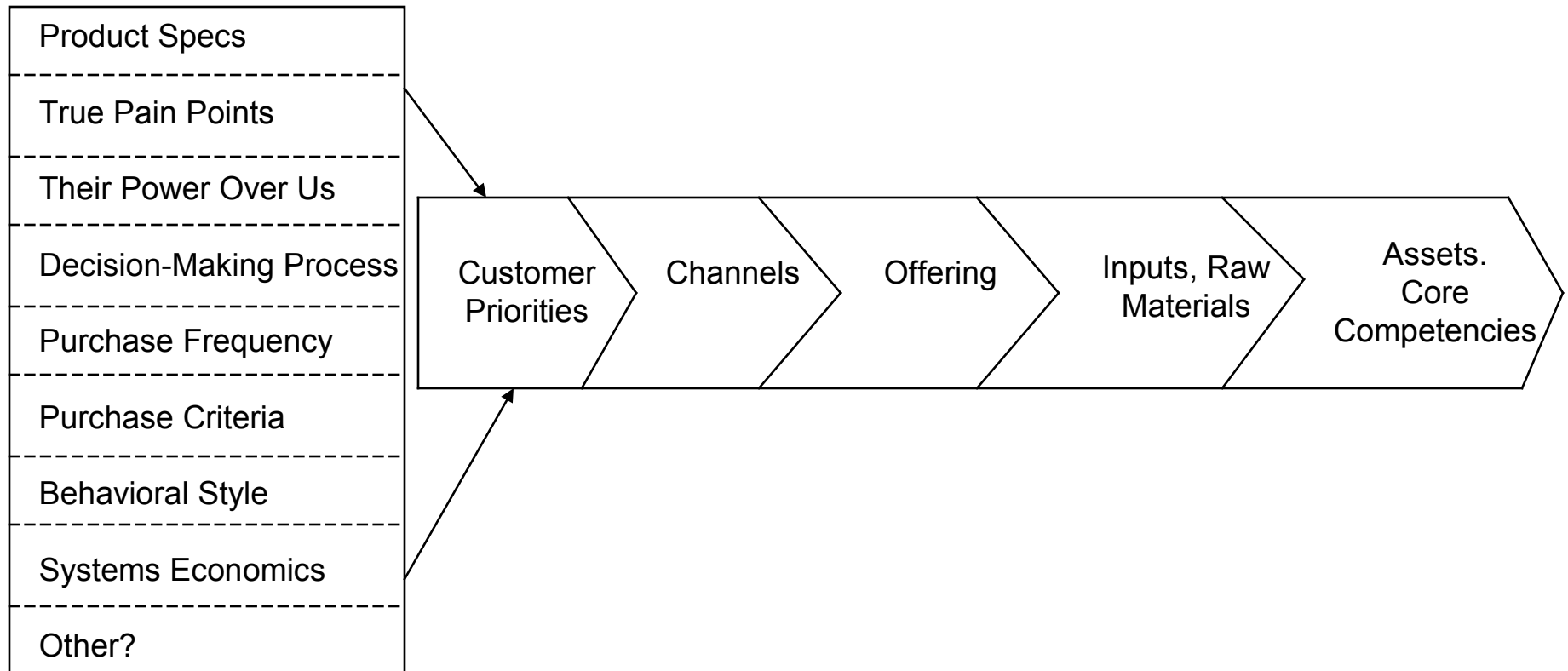


Source, Slywotzky and Morrison, *The Profit Zone*, Chapter 2, 1997

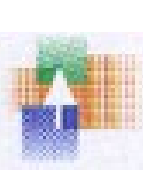


The Modern Value Chain

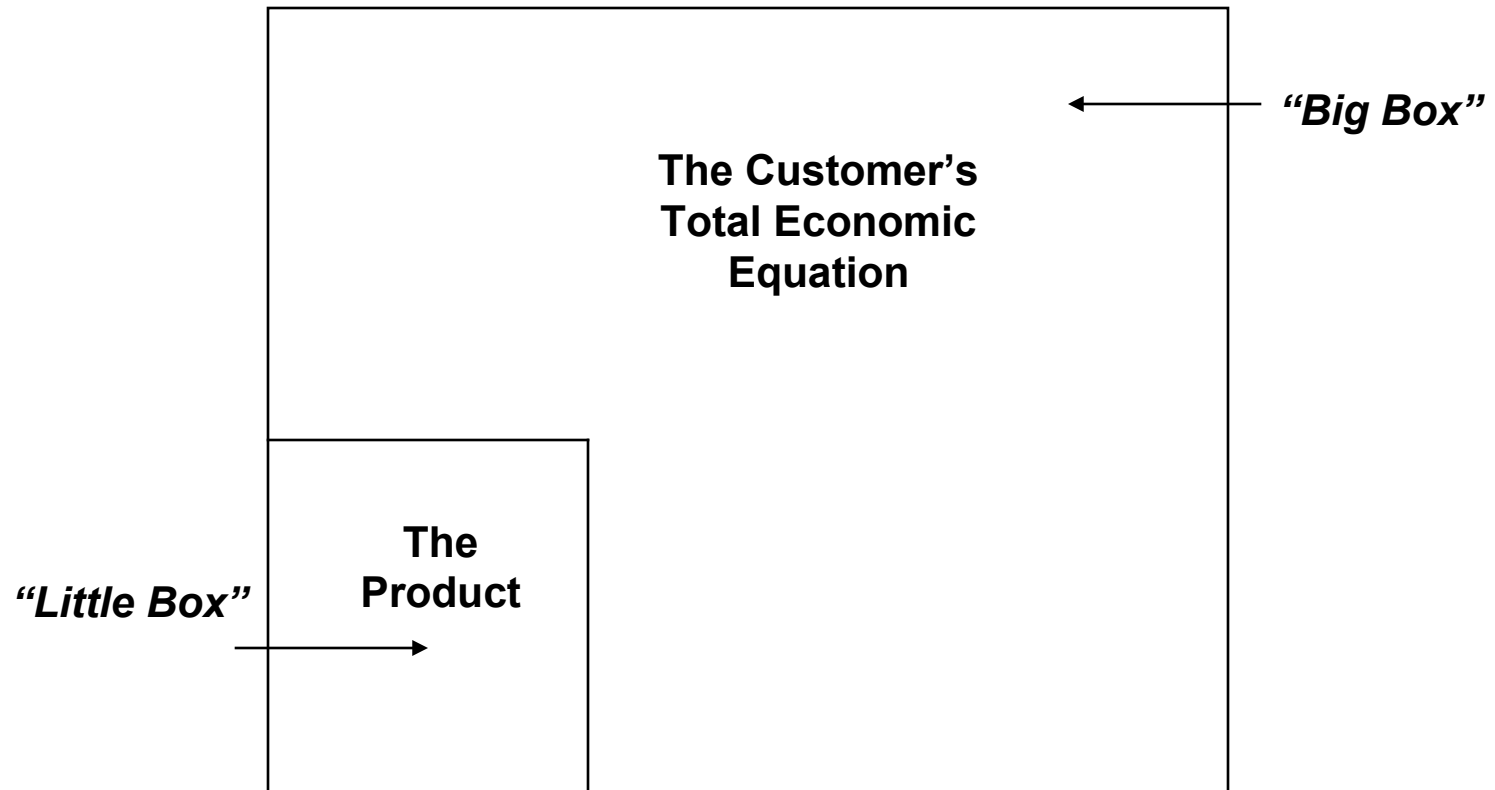
Truly Understanding the Customer



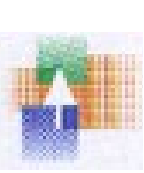
Adapted from: Slywotzky and Morrison, *The Profit Zone*, Chapter 2, 1997



Customer's Systems Economics



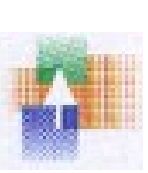
Source, Slywotzky and Morrison, *The Profit Zone*, Chapter 2, 1997



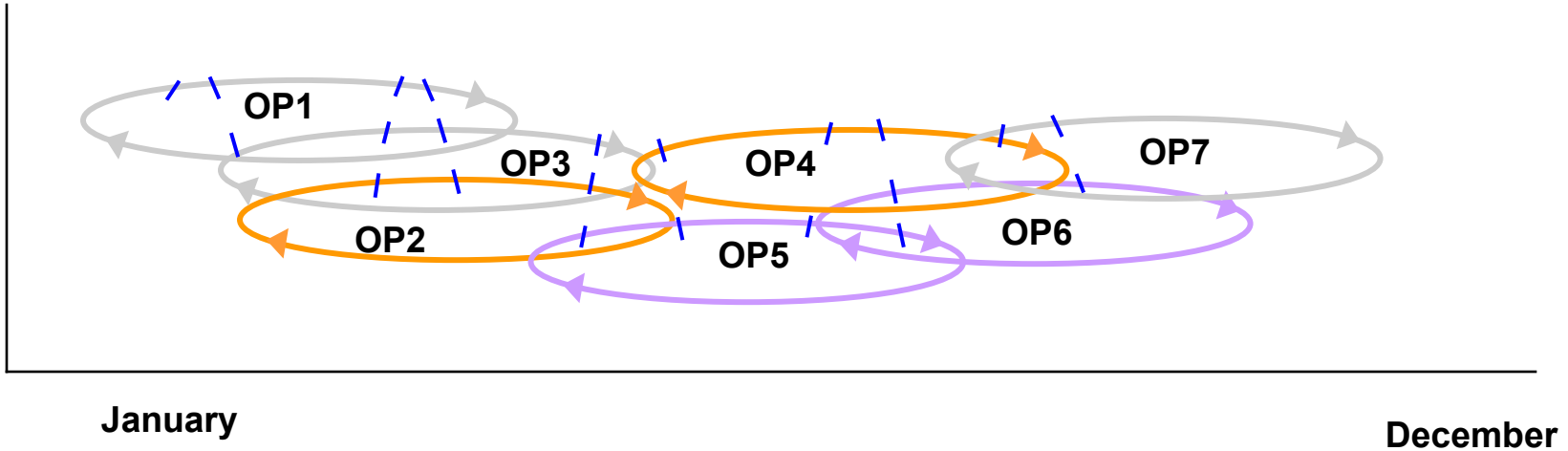
Operating Processes Cross-Process Interaction

How do we best serve and deliver for the customer?
The process revolution got us to processes, which
cut across the silowed functions. But that is not
enough, we must lead and manage

cross-process interactions.



Operating Processes Cross-Process Interaction and Serving the Customer



OP1 = Procurement Process

OP2 = Inbound Logistics Process

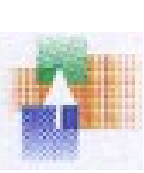
OP3 = Manufacturing or "Transformation" Process for Service Firms

OP4 = Inventory Process (raw materials, WIP and finished goods)

OP5 = Outbound Logistics Process

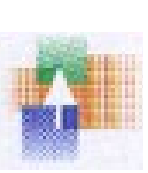
OP6 = Marketing and Sales Process

OP7 = After Sales Service Process

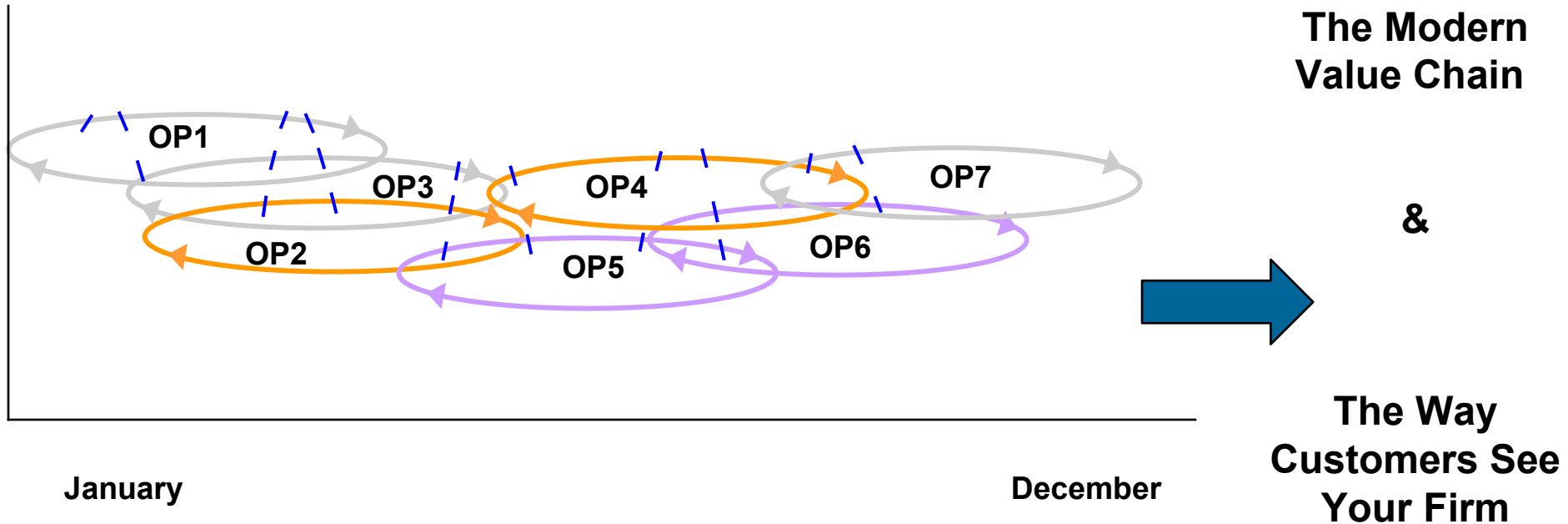


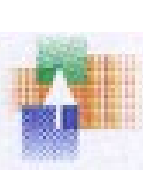
Operating Processes Cross-Process Interaction and Serving the Customer

- OP1 = Procurement Process (20% of the variability of OP1 is caused by Executive Processes (not shown here))**
- OP2 = Inbound Logistics Process (25% of the variability in OP2 is caused by OP3)**
- OP3 = Manufacturing or “Transformation” Process for Service Firms (30% of the variability in OP3 is caused by OP6)**
- OP4 = Inventory Process (raw materials, WIP and finished goods) – (60% of the variability in OP4 is caused by Executive Processes not shown here)**
- OP5= Outbound Logistics Process (40% of the variability in OP5 is caused by OP3, OP4)**
- OP6 = Marketing and Sales Process (65% of the variance in OP6 is caused by the New Product Development Process, not depicted here)**
- OP7 = After Sales Service Process (75% of the variance in OP7 is caused by all prior operating processes and lack of proper IT enablement)**



Operating Processes Cross-Process Interaction and Serving the Customer



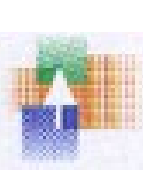


7. Cross-Process Impacts

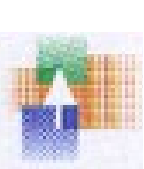
Lessons Learned and Further Things to Think About and Do:

Not recognizing and managing and extracting benefits from the reality of cross-process impacts is an operations failure. Good to great operations people know of these cross-process impacts and potential leverage for results.

The next vista is to research and measure and understand the cross-process impacts on Operating Processes from Executive and Support processes. I think this is a huge lever for operating performance and increases in the market value of the firm.



8. The Initiative Management Process As the Key Executive Process of the Firm



8. The Initiative Management Process As the Key Executive Process of the Firm

Soundbite:

The Initiative Management Process should be **the key** Executive Process in your firm. This process brings venture capital/private equity disciplines inside of the Established Firm. This single process helps the most in bringing a culture of a transparent meritocracy inside of your firm. This process approaches strategy execution outside of the Ongoing Work of the Firm, unlike other approaches to strategy execution.

Fatal Flaws If Soundbite is Ignored:

Executing strategy in the On-going work of the firm is always fraught with at least mild frustration if not downright stalls. The reason is because it is in the On-going work that the mix of Subject Matter, Process, Structure and Culture barriers reside.

What You and Your Firm Should Do Right Now:

Put in a trial Initiative Management Process using something as simple as Excel to track your current active and new strategic initiatives to either completion or early termination

Optional Detail Follows:

The Initiative Management Process

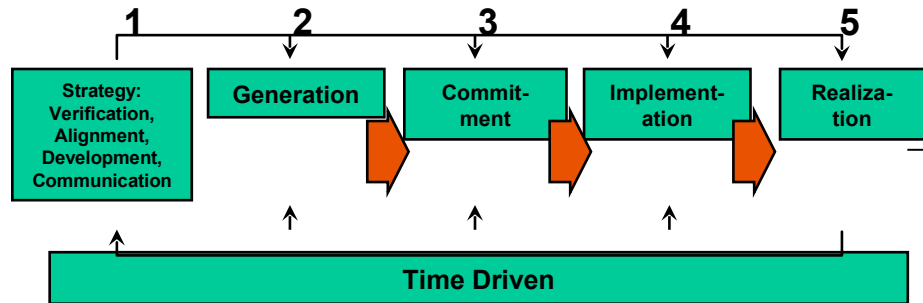
Tool: The Initiative Management Process (IMP)

2. Stage/Gate Process:

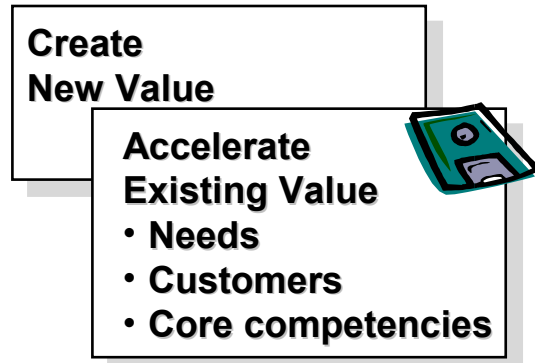
3. Shareholder (EVA) Value

1. Sources of Initiatives

- Getting Better: **Extension**
- Getting Bigger and Broader: **Platform**
- Betting Bolder: **Breakthrough**

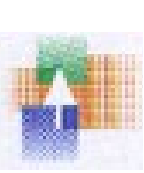


Metrics: Cycle Time, Rework, Cost of Process, Customer Satisfaction, Financial Results, Relation to Market Rhythm

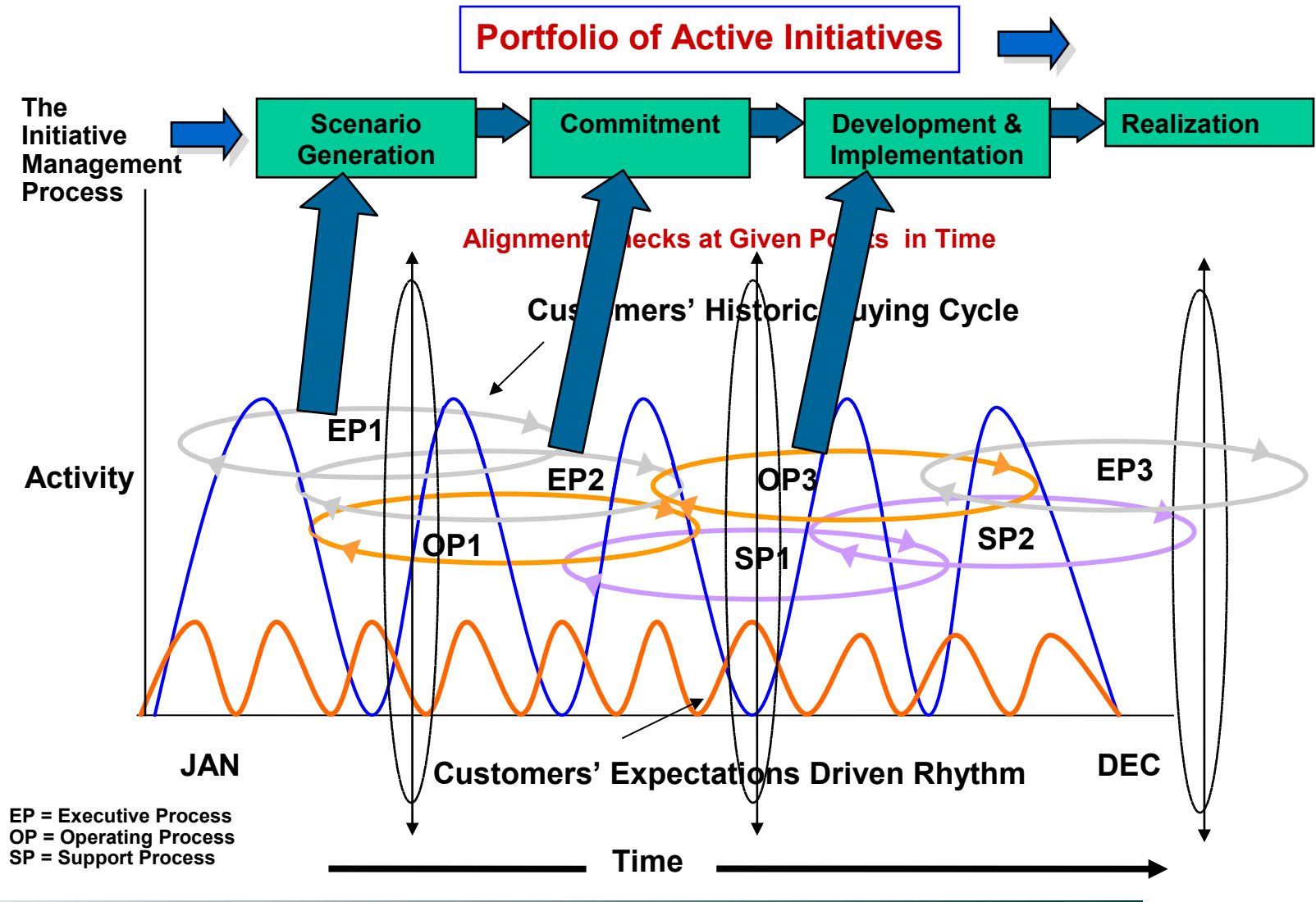


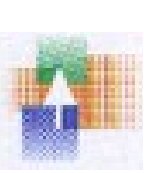
4. Continuous Change/Improvement/Confidence Process

“Pull New or Backlogged Opportunities into Process Based on Results Gap”



The Suite of Executive, Operating and Support Processes With Their Cross Impacts Drive the Strategic Initiatives Through the IMP





8. The Initiative Management Process As the Key Executive Process of the Firm

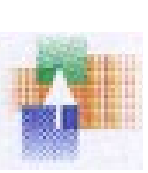
Lessons Learned and Further Things to Think About and Do:

It took me fifteen years to figure out why world class strategy execution was and is so difficult. It is because all other approaches to strategy execution that I know of (the ‘static alignment’ school, the Balanced Scorecard, Management by Objectives), etc. execute strategy in the On-going work of the firm.

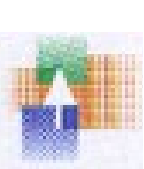
The Initiative Management Process (IMP) executes current and new strategic initiatives outside of the On-going work and brings Venture Capital/Private Equity disciplines inside of the Established Firm.

If your firm can install a culture of a transparent meritocracy, learn process innovation disciplines, then it can experiment with using the IMP as the key executive process of the firm. I think you will be surprised at the benefits.

See the Learning Module – “World Class Strategy Execution” for more detail.



9. General Firm Valuation Model



9. General Firm Valuation Model

Soundbite:

Recall our view is that the proper super-ordinate goal of the for-profit firm is to grow the value of the firm. This General Model includes the work of Bart Madden (www.learningwhatworks.com) and Carl Rappaport (1986, 1998). The Madden Valuation model and the list of Rappaport Valuation Drivers depict very clearly what is included in firm valuation, and what is not, and how value is financially created.

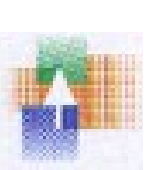
Fatal Flaws If Soundbite is Ignored:

Resources can be allocated to assets that are actually destroying firm valuation or slowing the growth of firm valuation.

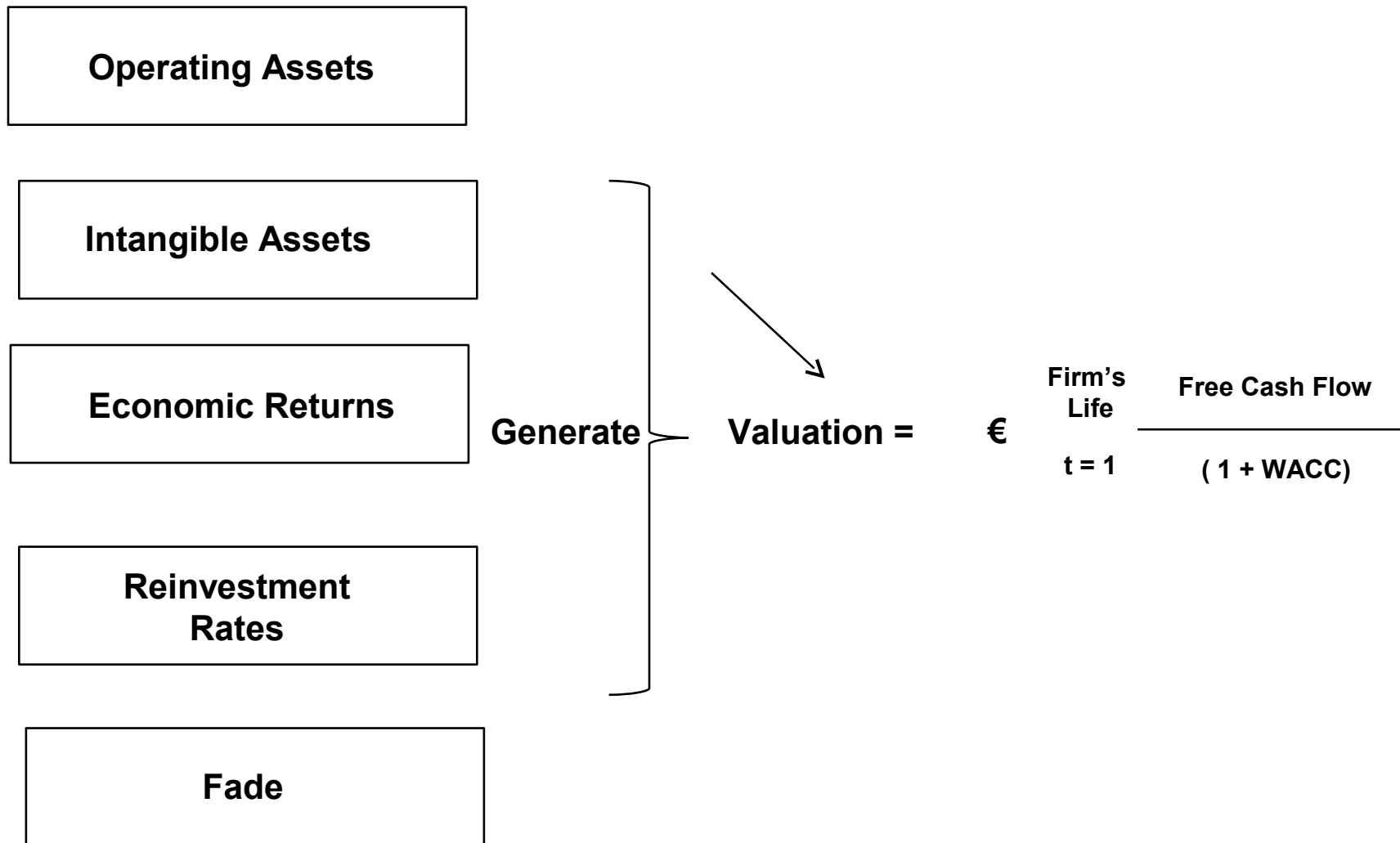
What You and Your Firm Should Do Right Now:

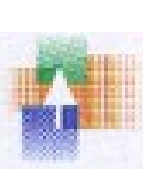
I think most firms know of the debates that have gone on for well over thirty years about shareholder value being the proper super-ordinate goal of the for-profit enterprise. But if your firm is new and you are not mindful of the requirement to earn more than your weighted average cost of capital, I would suggest getting a finance professor from your local university to start the education process.

Optional Detail Follows:



Life-Cycle Valuation Model



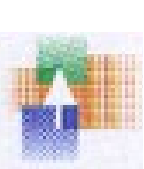


Drivers of Firm Valuation

- Sales growth rate
- Operating profit margin
- Tax expenses
- Incremental working capital
(investment needed to drive sales
Increase)
- Incremental fixed capital (investment
needed to drive sales increase)
- Minimum Required Rate of Return =
Weighted Average Cost of Capital
- Competitive advantage duration
period



**Direction Required
for Contribution to
Increasing Company
Value**



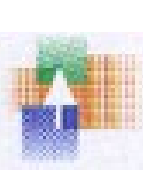
9. General Firm Valuation Model

Lessons Learned and Further Things to Think About and Do:

I think the quote from Koller, Goedhart and Wessels (2010, p.4) tells it all:

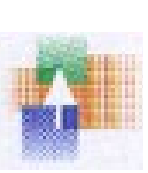
“The guiding principle of value creation is that companies create value by investing capital they raise from investors to generate future cash flows at rates of return exceeding the cost of capital (the rate investors require to be paid for the use of their capital). The faster companies can increase their revenue and deploy more capital at attractive rates of return, the more value they will create. The combination of growth and return on invested capital (ROIC) relative to its cost is what drives value. Companies can sustain strong growth and high returns on invested capital only if they have a well-defined competitive advantage. This is how competitive advantage, the core concept of business strategy, links to the guiding principle of value creation”

If your firm has not begun conversations about what its best super-ordinate goal should be, I cannot think of a better time to do this.

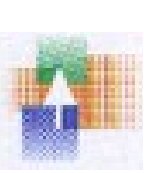


Citations for General Firm Valuation Model:

1. Koller, T., Goedhart, M., and Wessels, D., 2010, *Valuation: Measuring and Managing the Value of Companies*, Hoboken: John Wiley and Sons.
2. Madden, B. J., 1999, *CFROI Valuation: A Total System Approach to Valuing the Firm*, Oxford: Butterworth-Heinemann.
3. Madden, B. J., 2005, *Maximizing Shareholder Value and the Greater Good*, Naperville: LearningWhatWorks.
4. Madden, B. J., 2010, *Wealth Creation: A Systems Mindset for Building and Investing in Businesses for the Long Term*, Hoboken: John Wiley and Sons.



10. Speed, People, Intangible Assets, Recognizing New Opportunities (SPIR) – Key Macro Bases for Competitive Advantage and Wealth Creation



10. Speed, People, Intangible Assets, Recognizing New Opportunities (SPIR) – Key Macro Bases for Competitive Advantage and Wealth Creation

Soundbite:

From our Secret Sauce. If someone would ask us what we would say in an elevator ride that is the essence of strategic management today, we would say SPIR.

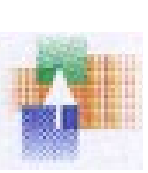
Fatal Flaws If Soundbite is Ignored:

We feel SPIR is like a multiplicative function, that is anything times zero is zero. If your firm does not have a viable solution for all of the aspects of SPIR, it could be zero or non-existent through being merged out of existence or outright failure in bankruptcy.

What You and Your Firm Should Do Right Now:

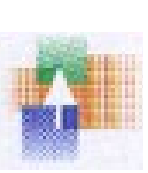
Begin to study and think through what is missing from your firm or any or all of the aspects of SPIR and begin a movement for dramatic improvement.

Optional Detail Follows:



As discussed in our Secret Sauce section of this website, it has taken me 30 years in the field as a strategy consultant and practical academic to be able to offer this point of view around SPIR.

Of the hundreds if not thousands of strategy attributes and concepts and even tools and frameworks I could have chosen, I think SPIR is a robust high level depiction of a very complex set of issues, causations, and framework.



From the Secret Sauce section of our website :

Speed

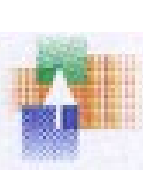
People



SPIR

Intangible Assets

Recognizing New Opportunities



11 Factors (each with from 16 to 30 separate variables) form 4 Themes

Themes

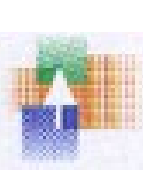
1. **Absence of four “law-like” organizational barriers**
2. **Penchant for no bureaucracy**
3. **Extreme process and process innovation discipline**
4. **Ubiquitous understanding and application of what value means – both financial value and customer value**
5. **Personal values that give rise to high performance teams**
6. **Processes and personal values that give rise to the passion for continuous learning**
7. **Ubiquitous understanding that time is the only non-renewable resource**
8. **Personal values and track record that supports continuous inquisitiveness and unrest with the status quo**
9. **Personal values that give rise to pride in authentic work**
10. **Lack of clutter in organizational and personal life**
11. **Passion and track record for acquiring and using new explicit and tacit knowledge**

Speed

People

**Intangible
Assets**

**Recognizing New
Opportunities**



Speed

1. Absence of four “law-like” organizational barriers
2. Penchant for no bureaucracy
3. Extreme process and process innovation discipline

People

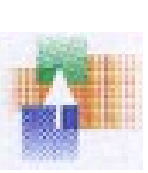
1. Understanding what value means and its application
1. High performance teams
2. Continuous learning

Intangible Assets

1. Time is the only non-renewable resource
8. Continuous inquisitiveness and unrest with the status quo
9. Pride in authentic work

Recognizing New Opportunities

8. Lack of clutter in organizational and personal life
9. Acquiring and using new explicit and tacit knowledge



SPIR:

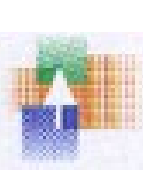
1.Speed –

Speed, alacrity, agility, etc. are crucial for today's fast market rhythm environments.

Speed is needed everywhere in a for-profit firm: R&D, new product development, supply chain, manufacturing/transformation, sales, after-sales-service, deal doing and acquisitions, closing the books, hiring new people – I could go on.

Speed is caused by being barrier free, an abhorrence of bureaucracy and practicing process innovation discipline.

Speed and no re-work in the processes go hand in hand. And quality also increases in firms with few barriers and little re-work.



SPIR:

2.People –

Having a complete portfolio of the right competencies in a firm is the tip of the iceberg of what is required for what many firms call their “most important asset”.

Like General Electric depicted in the next slide, prior investment must develop your people assets on a continuous basis:

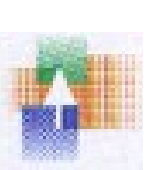
- Recruitment
- Training
- Development
- Tracking/Deployment
- Evaluation and Reward

Behind this are the three attributes for people from our Secret Sauce:

1.Understanding what value means and its application

1.High performance teams

2.Continuous learning



GE's Integrated Management Development System: A Finely Tuned Six Cylinder Engine

Recruitment:

- **Cultural Fit**
 - Driven competitors
 - Team players
- **Segmented, Focused Targets**
 - Night students/Mid West schools
 - Ex-Military officers
 - MBA rebounds (from McKinsey, investment banks, etc)
- **Strategic Recruiting**
 - Core globalization goal
 - Competitively located (e.g. Siemens)
 - Managed asset: development reputation

Development:

- **Intensive Personal Development**
 - EMS Reviews
 - Open dialogue: aspirational/expectations
 - Honest feedback
 - Explicit plans
- **Disciplined Organizational Development**
 - Session C
 - Linked to strategic priorities
 - Managers held accountable
- **Powerful Informal Processes**
 - Identify and follow talent
 - Personal mentoring

Tracking/Deployment:

- **Corporate Talent Inventory and Deployment Process**
 - Corporate talent inventory
 - Session C transparency
 - Norm of giving up the best ("GE owns, the businesses rent")
- **Informal Tracking Network**
 - Entry level intern rotation
 - Top management scanning
 - Network of EMS specialists

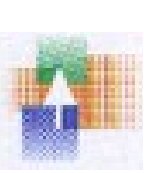
Training:

- **Assimilation/Acculturation Role**
 - New recruit programs
 - Executives as faculty
 - "Common Coffee Pot"
- **Knowledge/Skill Development**
 - Specialized entry level programs
 - Career-staged development courses
- **Organization Development Role**
 - Programs linked to strategic priorities
 - Real assignment project components

Evaluation/Reward:

- **Clear Standards, Objectives, Metrics**
 - Metrics change with priorities
 - "Nine Block" Summary
 - Performance and Values
 - Capability and Promotability
- **Leverages Recognition, Rewards**
 - Stock options to A players (top 20%)
 - VP potential to EDC course
 - Top performers showcased (Boca)
- **Bottom Performers Removed**
 - Vitality Curve (20/70/10)





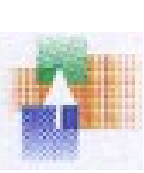
SPIR:

3.Intangible Assets –

As early as ten years ago, physical assets were thought to provide the foundation for the firm's strategy and strategy framework by staking out strategic positions via "irreversible decisions" that were thought to retard competitors' imitation and encroachment.

As will be discussed in the Component on Dynamic Capabilities, physical assets can be duplicated on the global scene more easily than ever and therefore do not help create shareholder value to the degree before. Recall scarcity is a key to value creation and the ability to imitate and duplicate strips the scarcity value away.

Things like a great brand, skills in R&D and new product development to a strong culture are Intangible Assets that are very difficult to copy, and therefore are the kinds of assets that are helping to drive increases in firm valuation.



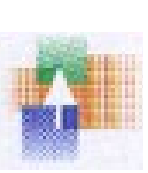
SPIR:

4. Recognizing New Opportunities –

This aspect of this Component or perhaps anywhere on this website and other approaches to strategy is probably the most awe inspiring skill we notice in others and wish we were better at it.

Recent advances in neural science might help, but to date all we can say is people like Steve Jobs and Bill Gates had it. What about all the inventors over the last 200 years?

Needless to say, the skill to see new opportunities early is a huge advantage. And then the ability to take ideas to execution makes the skill at recognizing new opportunities create real value. Just look at the market cap of Apple – the largest in the world.



10. Speed, People, Intangible Assets, Recognizing New Opportunities (SPIR) – Key Macro Bases for Competitive Advantage and Wealth Creation

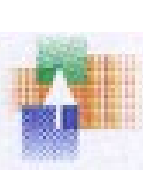
Lessons Learned and Further Things to Think About and Do:

In operations excellence lore, for many years firms lived with a trade-off. You could have two of three aspects below but not all three at the same time:

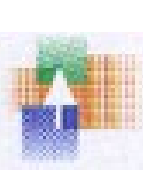
Time (Speed)
Cost
Quality

Now you have to have all three to just be in the ball game as a common denominator.

We will the multiplicative relation in SPIR requires the same thing – it is all or nothing.



11. Dynamic Capabilities – Current Most Useful New General Strategy Framework for Competitive Advantage and Wealth Creation



11. Dynamic Capabilities – Current Most Useful New General Strategy Framework for Competitive Advantage and Wealth Creation

Soundbite:

David Teece, an academic at Cal Berkeley has been working on Dynamic Capabilities since the early 1990s via almost pure academic research. It is starting to get traction for strategy professionals.

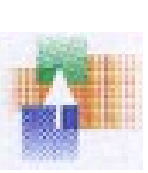
Fatal Flaws If Soundbite is Ignored:

Too early to tell if Dynamic Capabilities will replace the Positioning School is the current most useful general strategy framework. However if the premises, arguments and data supporting Dynamic Capabilities turn out to be uniformly true, then it could replace the Positioning School as the dominant paradigm

What You and Your Firm Should Do Right Now:

Start reading here and perhaps David Teece's and others writing on Dynamic Capabilities

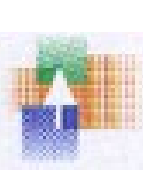
Optional Detail Follows:



Paraphrasing from (Teece (2009, p-130)) and from a section discussing multinational enterprises (MNEs) (*our change of format*):

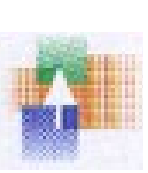
“Lying at the heart of dynamic capabilities are several fundamental management/organizational skills, including:

- Learning processes and innovation processes to build intangible assets
- Being able to design many different business models at once, not just one dominant business model, to attack new opportunities in the global arena
- Early global opportunity recognition
- Making astute global investments and managing them
- Global contacts, global asset orchestration, global bargaining and global transaction competence
- Changed governance of the firm from top down to distributed and aligned incentives across a “boundaryless” global organization
- Moving fast to deter imitation by global competitors
- Protecting intellectual capital



The prior definitive framework for strategy was the positioning school. It's two key premises or even laws were/are:

- Try to get as big as you can to enjoy economies to lower costs – i.e. volume discounts on large purchases and the reduction in costs due to learning from many cycles of meeting demand throughout a year. This is called the learning curve effect and allows you to get better and less costly *at what you currently do*.
- Try to increase the scope of your enterprise by adding business units, through acquisition or home growing them, that are related to your core business so that you can spread your marketing costs over all of them. This really leverages your marketing budget.

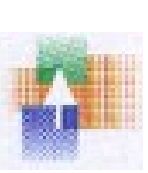


But new developments are making these two pillars very shaky and risky. Globally, here is what is happening now:

- Physical assets can be copied fairly easily and can become commodities. These assets' contribution to firm valuation is decreasing.

- Intangible assets are emerging as the kind of assets that are driving increases in the value of the firm. These are things like a great brand, the unique knowledge in firms found in their R&D shops, excellent new product development prowess, and a culture for innovation. Also the enviable ability to see new winning opportunities globally before most can is a great intangible asset. Furthermore, intangible assets are very thinly traded, unlike physical assets because they are hard to value by an outside buyer. The way to grow their value is organically inside of the owning firm. Apple is a great example of this. Also intangible assets have staying power as they are almost impossible for another firm to copy.

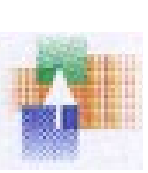
- The world-wide-web (www) is allowing very small firms to be very successful. You don't have to be big anymore. The reach and richness and speed of global information, all at very low cost, are allowing smaller firms all over the world to develop very specialized intangible assets that are valuable to other firms as inputs. Furthermore, these very specialized assets can be easily "orchestrated" as a linked global portfolio by a "community facilitator" through global information networks. Amazon was the first to perfect a community facilitator role for the benefit of all the community – their ZShops, other retailers, etc.



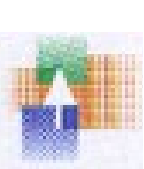
11. Dynamic Capabilities – Current Most Useful New General Strategy Framework for Competitive Advantage and Wealth Creation

Lessons Learned and Further Things to Think About and Do:

Too early to tell. We all need to monitor and take action that is prudent and timely.



12. Six Key Elements and Relation to SPIR – Detail Bases for Competitive Advantage and Wealth Creation



12. Six Key Elements and Relation to SPIR – Detail Bases for Competitive Advantage and Wealth Creation

Soundbite:

Based on the cumulative knowledge through the first 11 Components, we now offer six Elements that are the detail to SPIR. I bet you have your own approach to each of these six Elements, but we will offer what has worked for us. We will describe our central approach but there is a lot of detail for each of these six Elements embedded throughout this website – Learning Modules, Publications, Tools, Techniques, Templates, etc.

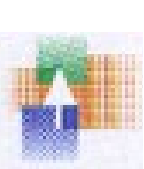
Fatal Flaws If Soundbite is Ignored:

The only fatal flaw here is if your firm has not forged at least an adequate solution for each of the six Elements. We find there can be staggered improvement based on what the firm needs and other Elements can be folded in over time. However, to grow the market value of the firm, eventually your firm needs a world class solution for each of the six Elements

What You and Your Firm Should Do Right Now:

Perform a strategic audit of where you are sound and where you need improvement. See next Component where we set out Metric Concepts for each Element. Set out an Improvement Roadmap and time table

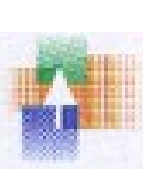
Optional Detail Follows:



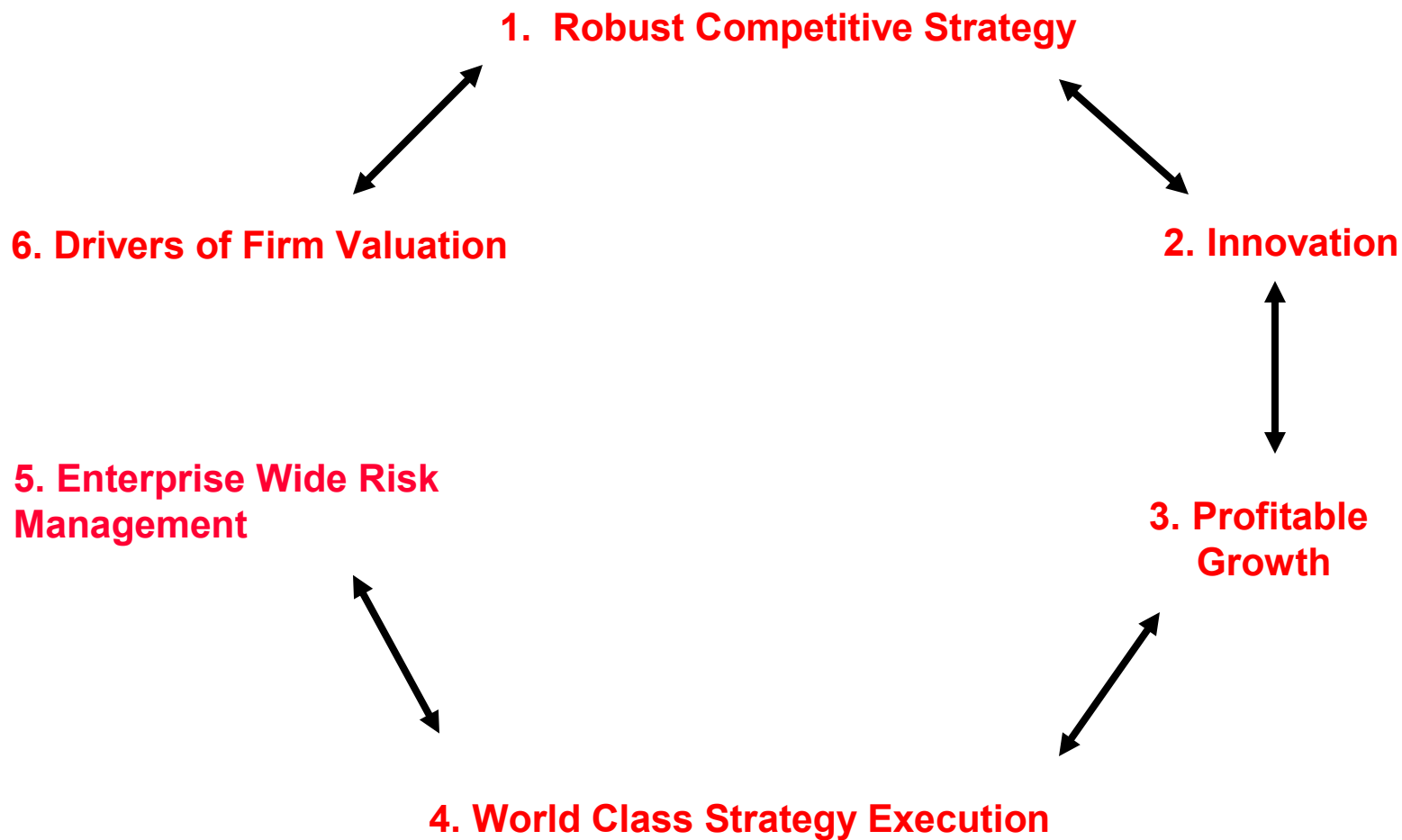
Road to Firm Valuation for Sustainable Legacy, IPO, or Sale To Counteract the Negative Aspects of the Six Strategy Laws and Downward Fade of Free Cash Flow

Peeling the Onion – Keys From My Experience:

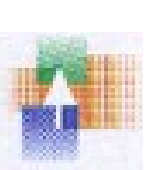
- 1. Robust Competitive Strategy**
- 2. Innovation: Efficient and Effective**
- 3. Growth: Profitable Growth At the Right Pace**
- 4. World Class Strategy Execution**
- 5. Enterprise Wide Risk Management**
- 6. Increasing the Drivers of the Value of Your Firm**



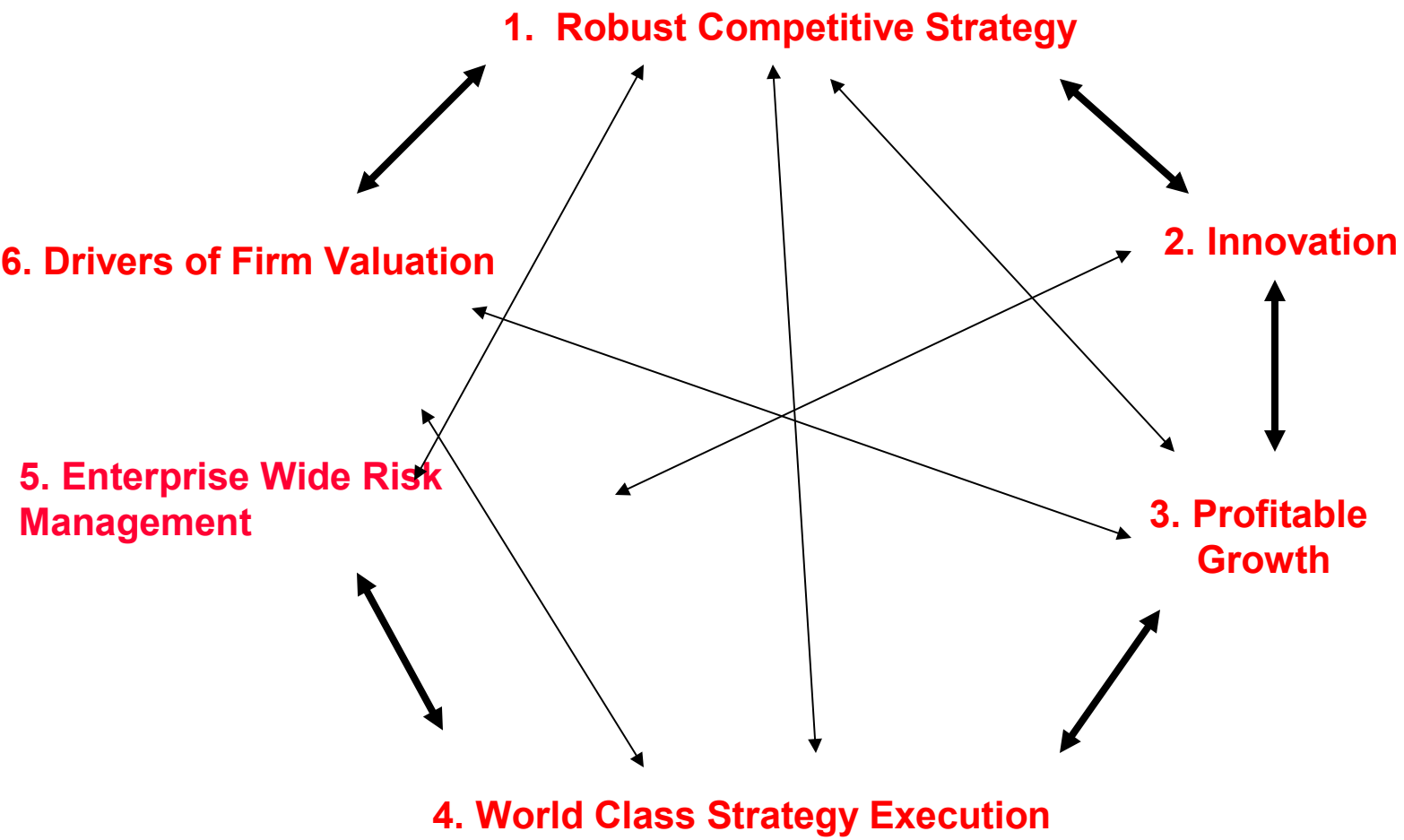
Six Elements From a Framework for Actionable Strategic Management: An Interconnected System



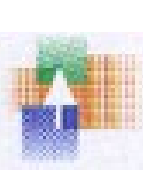
* Lighter arrows portray several of many interactions in this system and will emerge firm by firm



Six Elements From a Framework for Actionable Strategic Management: An Interconnected System



* Lighter arrows portray several of many interactions in this system and will emerge firm by firm



Peeling the Onion: Getting to SPIR:

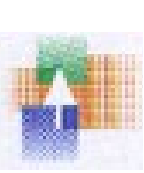
1. Robust business unit strategy formulation –

One's approach to robust business unit strategy formulation depends on which one of Henry Mintzberg's 10 schools of strategy thought one subscribes to. See next slide for a list. We add one more to make 11 – The Systems Dynamics School.

Our approach is based on the Positioning School, promulgated by the Harvard Competitive Strategy group. For us the essence of robust business unit strategy formulation is having and obtaining the linked activities, capabilities, resources and processes to “drive a wedge between supplier willingness to supply and customer willingness to pay such that the discounted free cash flow generated is sufficient for providers of capital.

In other words, robust competitive strategy should assure increases in Customer Willingness to Pay at the lowest total delivered cost per unit sold consistent with the customer value supplied.

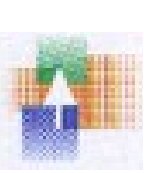
Recall initially StrategyBest will not delve into detail Corporate Level Strategy, which is the strategy of multiple business units.



Ten Schools of Strategic Management Thought*

1. **The Design School** – strategy formation as a process of conception
2. **The Planning School** – strategy formation as a formal process
3. **The Positioning School** – strategy formation as an analytical process
4. **The Entrepreneurial School** – strategy formation as a visionary process
5. **The Cognitive School** – strategy formation as a mental process
6. **The Learning School** – strategy formation as an emergent process
7. **The Power School** – strategy formation as a process of negotiation
8. **The Cultural School** - strategy formation as a collective process
9. **The Environmental School** – strategy formation as a reactive process
10. **The Configuration School** – strategy formation as a process of transformation
11. **The Systems Dynamics School – strategy formation as an inter-related system**

* Mintzberg, Ahlstrand and Lampel, *Strategy Safari: Your Complete Guide to the Wilds of Strategic Management*, 2nd Ed, Prentice Hall, 2009.



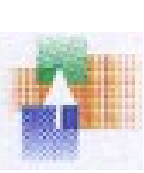
Peeling the Onion: Getting to SPIR:

2. Innovation –

A company wide approach for innovation in the Established Firm is probably the single most strategic initiative operating in at least American enterprise as of 2013.

For us the essence of innovation is removing the four barriers discussed in this website – subject matter, process, structure and culture and installing the Initiative Management Process (Component #8) to generate and execute “torrents” of new products, services and businesses that are expected to dramatically increase the market value of the firm.

For us, Innovation and World Class Strategy Execution are two sides of the same coin. Each helps generate a “success and confidence platform” to move the established firm along an innovation and growth journey. This can be generically depicted by our 4Bs chart (where you scored on the AAME for GOLD diagnostic) and further depicted by four cells in each of the Getting Better, Getting Bigger, Getting Broader and Getting Bolder grids, supplied next.

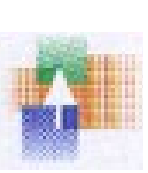


Peeling the Onion: Getting to SPIR:

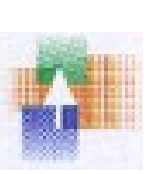
2. Innovation –

Your Innovation approach – should assure that:

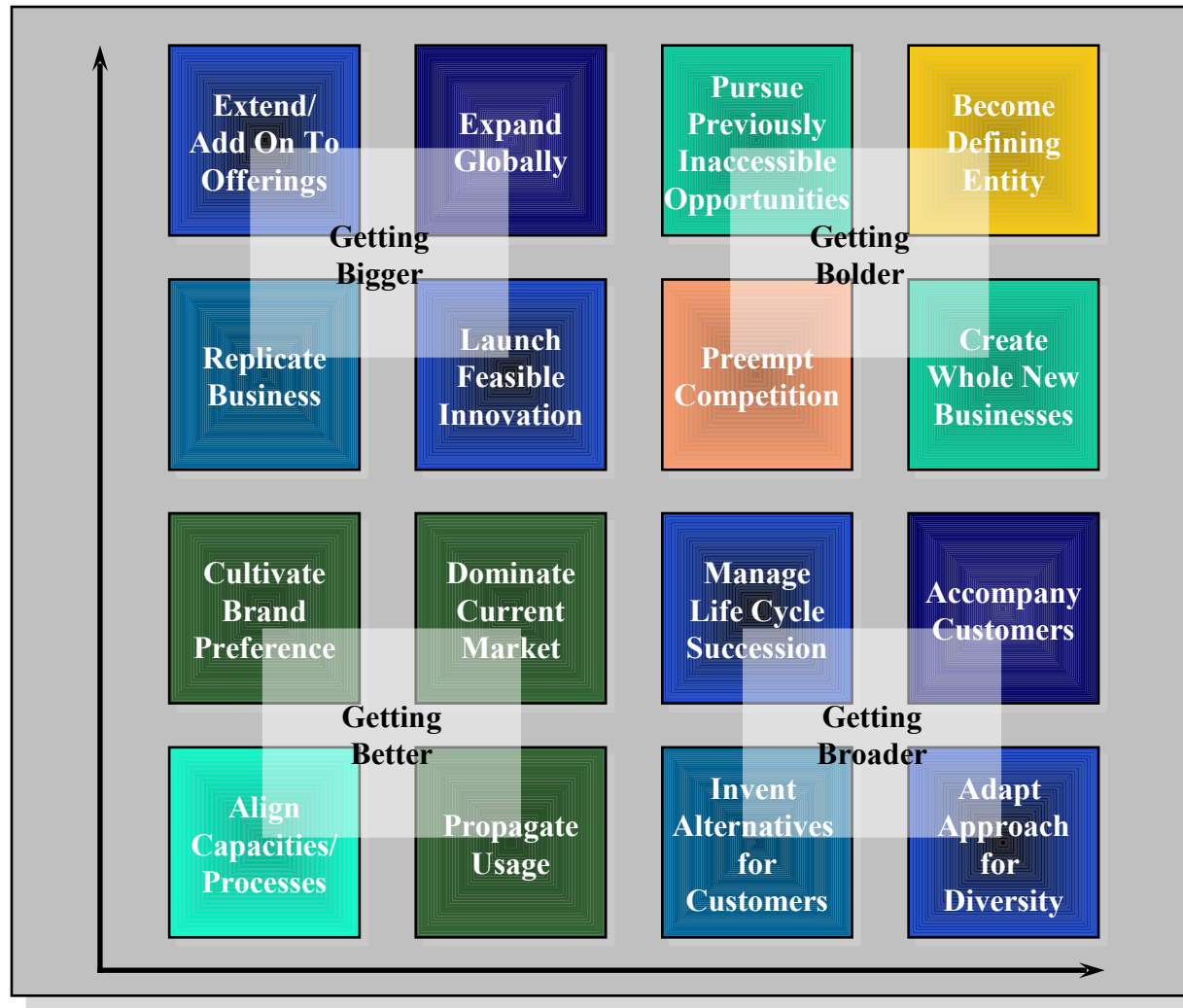
- The correct number and kind of innovation competencies is functioning
- The number of new wins is on target
- The number of release time hours of people involved and full time hours expended is on target or better
- The time to positive cash flow from the new products and services is the shortest possible or prudent.



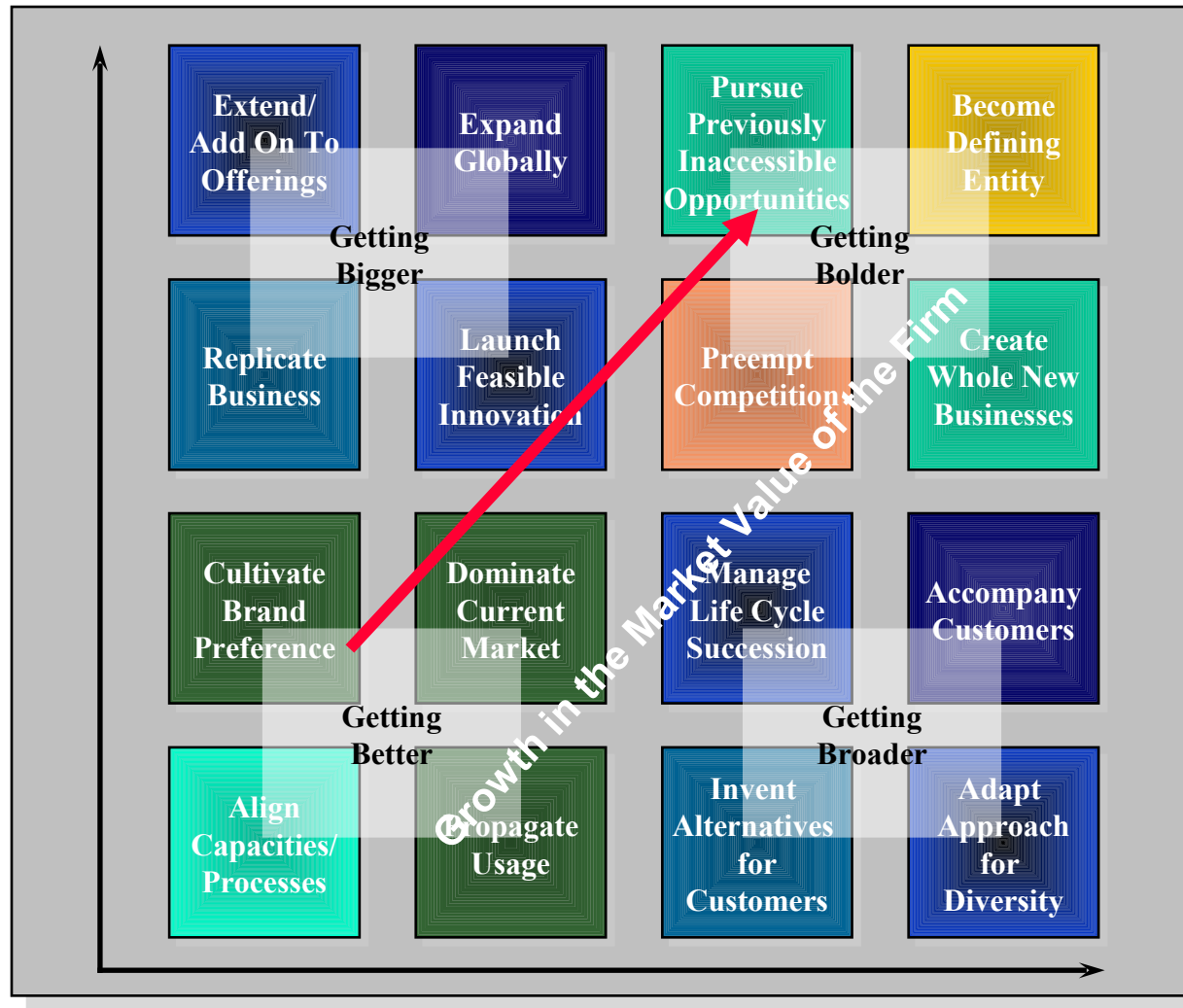
Innovation, Growth, Execution and Entrepreneurship: Improvement Through the 4 B's: *Getting Better, Bigger, Broader, Bolder*

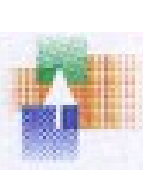


The 4B's Chart



The 4 B's: Practical View of the PPF

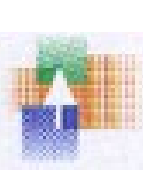




The Four Bs 16 Cell Drilldown:

**16 Innovation/Growth/Continuous
Improvement Options:**

**Channeled Through the Growth Initiative Management
Process**

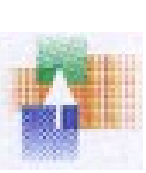


Preparing for Growth At Baseline Condition

My approach to growth, supported by practical academic research, assesses the firm's growth situation at baseline. If the firm is already experiencing a growth dilemma, the baseline situation always has a mix of the following: cluttered with too many initiatives that have no growth initiative process to pull them through, cluttered thinking about what growth really entails, a history of not having success with previous growth attempts and no process to think about and act on emerging growth opportunities in a timely manner.

At baseline, the firm must work to agree on a vision for success and growth, select an initial growth starting point, map out a strawman for the overall growth journey (with flexibility to change it after the journey begins), estimate ideal cycle times for initiatives to pass through a Growth Initiative Process, marshal critical capabilities and resources, make critical performance linkages throughout the entire organization and establish a capability building agenda that maps on to the growth journey map.

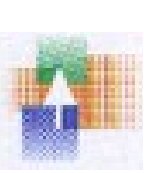
This baseline situation should be revisited with each significant growth initiative to assure that the firm remains synchronized both internally and with the competitive environment. As such, Aligning Capacities and Processes is a "touchstone" cell and needs to be assessed before each major growth move. Checking this "launching pad" before each significant new growth initiative helps to assure continual operating and strategic success throughout the growth journey.



Preparing for Growth At Baseline Condition

The “16 Firm Growth Options” map builds the growth journey from somewhere around the lower left hand quadrant through to the upper right quadrant, depending on the baseline situation and to what the growth journey reasonably aspires. Some of the combinations assist with quick hitting growth opportunity (lower left cells), while other combinations represent transformational growth that could include a re-invention thrust. In between could be a quick financial turnaround followed by a transformational growth path.

The combinations are virtually infinite. I feel all of these combinations though are but a part of one overall Growth Initiative Process that can serve firms by continually re-calibrating what has to be done operationally and strategically for innovation, growth, execution, transformation and re-invention.



Align Capacities/Processes

Example: Blockbuster Video's Re-focusing Regained Lost Share of Mind, Market and Profits But Still Failed

Viewing the organization as a total system (including processes, systems, culture, barriers, structure, practices, skills, etc., Align Capacities/Processes achieves growth through (re)engineering, tuning, optimizing, and otherwise improving operations and the business environment to ensure maximum customer fulfillment now and moving forward. For some Firms, Align Capacities/Processes alone is sufficient to stimulate all the growth the enterprise needs or can handle. For most Firms however, Align Capacities/Processes will serve as providing a foundation from which the other growth modes can proceed. As such, Align Capacities/Processes should be revisited as part of each major growth surge.

Appropriate Critical Success Processes

- Visioning to Re-focus Too Much Variety
- Design/Development
- Fulfillment
- Sales (including Cross Selling)
- Marketing
 - Telemarketing
 - Co-marketing
 - Stuffers
 - Piggy backing (Not for Profits, etc.)
 - Creative Advertising
- Service
- After Sales Service

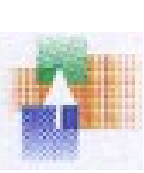
Applicable Process and Culture Barriers

- Lack of Systemic Thinking
- Internally Focused
- Static Rather Than Dynamic Bias
- Functional Myopia
- No Knowledge of How to Take Process Engine to Market
- Sales Force Pricing Sub-optimization
- “Not-Invented Here” Syndrome

Baseline

Future State

What Has to Change



Cultivate Brand Preference

Example: Marriot Hotels Variety Growth (Regular format, suite format, express format, e

Cultivate Brand Preference achieves growth by expanding the set of offerings over which a company's brand equity and supporting processes can be favorably extended for both current and some new customers.

**Appropriate Critical
Success Processes**

**Value/Price & Capacity/Demand
& Variety Management
Brand Management
Advertising/Promotion
Voice of the Customer
Developing and Promoting Standards
Channel Innovation
Customer Dialogue
Order Entry
Fulfillment
Service
After Sales Service**

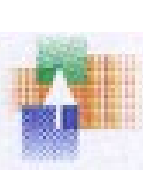
**Applicable Process and
Culture Barriers**

**Lack of Systemic Thinking
Lack of Knowledge on Need
to Sequence to "Imprint"
in Customer's Mind
Blindspot in Marketing
Bias for Acquisition Growth
Over Internal/Organic Growth**

Baseline

Future State

What Has to Change



Propagate Usage

Example: Levi's Remote kiosks, Burger Street's Movable Facilities, Arm and Hammer Baking Soda

Propagate Usage achieves growth by stimulating product and service use (and, hence, revenue) per customer by improving accessibility or usability and by identifying new usage opportunities.

**Appropriate Critical
Success Processes**

**Advertising/Promotion
Visibility
Quick Strike Creativity/Brainstorming
Fulfillment
Channel/Distribution Innovation
Government Relations/Lobbying**

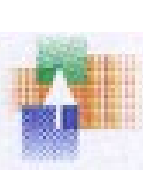
**Applicable Process and
Culture Barriers**

**Original Product/Usage Bias
Resource Allocation Process Overly
Burdens Approval
Myopia/Lack of Creativity**

Baseline

Future State

What Has to Change



Dominate Current Market

Example: Wal-Mart

Simultaneously Cultivating Brand Preference and Propagating Usage, Dominate Current Market achieves growth by locking the competition into an ever-shrinking (or, at best, stagnant) position in the market and preempting them from attracting new, higher-use customers, or even retaining the customers they currently have.

Appropriate Critical Success Processes

See Processes for Cultivating Brand Preference Plus Propagating Usage

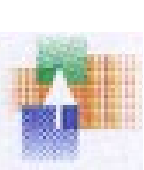
Applicable Process and Culture Barriers

See Barriers for Cultivating Brand Preference Plus Propagating Usage

Baseline

Future State

What Has to Change



Replicate Business

Example: Kinko's Copy Service From Yesteryear

Extending the organization's site location and logistics capabilities, Replicate Business achieves growth through the expansion of the business into new geographic markets where new customers will be similar to those already being served, thereby minimizing the amount of re-positioning and re-invention required.

Appropriate Critical Success Processes

Market Research
Packaging
Logistics
Launch/Roll-out
Relocation/Security
Human Resources
Government Relations

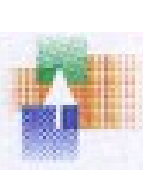
Applicable Process and Culture Barriers

Home Territory Centric
Home Office Centric
Lesser Vigilance for Lesser
Business Syndrome

Baseline

Future State

What Has to Change



Extend/Add-On To Offerings

Example: Infotainment Convergence: Cable/Computer/Entertainment/Utility Company's Product Extension

Increasing the aggregate value provided (value set) through existing fulfillment mechanisms, Extend/Add-On to Offerings achieves growth by identifying and providing add-on or accessory products and services which favorably complement the existing offering.

Appropriate Critical Success Processes

- Market Research
- Design/Development
- Version/Upgrade Migration
- Packaging
- Promotion
- Logistics
- Launch/Roll-Out

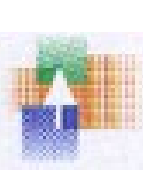
Applicable Process and Culture Barriers

- “Home Run/Big Invention” Syndrome
- “We Know What the Customer Needs” Syndrome
- “Lesser Vigilance for Lesser Products” Syndrome
- Resource Allocation Process Overly Burdens Approval

Baseline

Future State

What Has to Change



Launch Feasible Innovation

Example: HDTV, Smart Phones

Launch Feasible Innovation achieves growth by both creating superior total fulfillment mechanisms while serving an exhaustive set of new customer needs to enable customers to have capabilities and uses that were heretofore not offered by current incumbents.

Appropriate Critical Success Processes

Basic Research (Labs, etc.)
Design/Development
Competitive Opportunity Scanning
Entrepreneurship
Adjacent Industry Networking
Dealmaking
JVs, Alliances, Acquisitions
Post Merger Integration
Capital Relationships
Customer Research

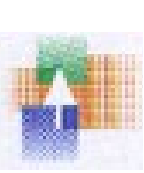
Applicable Process and Culture Barriers

Risk Averse Culture
Culture That Values Incrementalism
Lack of Networked Board/CEO
Lack of Patience/Commitment
Lack of Appreciation to Understand Adjacent Industries
Core/Founding Business Centric/Bias

Baseline

Future State

What Has to Change



Expand Globally

Example: McDonald's Restaurants

Representing the most ambitious extent of leveraging product, logistics and service strengths, Expand Globally achieves growth by iteratively replicating the business into new locations and by adapting the approach on a large scale to address new market/customer characteristics and needs.

Appropriate Critical Success Processes

Market Research
Competitor Assessment
Government/Legal/Regulatory
International Relocation/Security
Design/Development
Packaging
Fulfillment
Human Resources
JV/Alliance
Executive/Management
Organization Structure

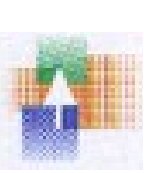
Applicable Process and Culture Barriers

Home Territory Centric
Company/HQ Centric
Ethnicity/Race/Nationality Centric
Lack of Flexibility in Processes

Baseline

Future State

What Has to Change



Invent Alternatives for Customers

Example: Walmart, Lexus

Often obsoleting whole current product and service sets, Invent Alternatives for Customers achieves growth by creating new total fulfillment mechanisms which address current customer needs better or cause customer needs to migrate on the Firm's time roadmap.

**Appropriate Critical
Success Processes**

- Competitive Opportunity Scanning
- Entrepreneurship
- Networking/Board of Directors
- Competitor Intelligence
- Dealmaking
- D/D
- Fulfillment
- Logistics

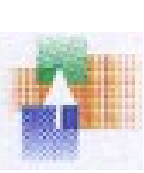
**Applicable Process and
Culture Barriers**

- Risk Averse Culture
- Culture That Values Incrementalism
- Lack of Networked Board/CEO
- Lack of Patience/Commitment

Baseline

Future State

What Has to Change



Manage Life Cycle Succession

Example: Merrill Lynch, Harley Davidson

Manage Life Cycle Succession achieves growth by focusing on effective product and service stratification and life-cycle management to ensure that the organization's offerings are aligned with customer's naturally evolving life cycle needs on an ongoing basis.

Appropriate Critical Success Processes

- Market Research
- Customer Demographics/Data Base
- Marketing
- Design/Development
- Packaging
- Order Entry (IT enabled, customer data capture, single point of contact, etc.)
- Fulfillment
- After Sales Service
- Customer Relationships

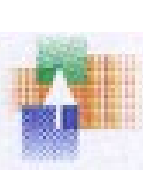
Applicable Process and Culture Barriers

- Lack of Appreciation for Life Style Change and Resulting Requirements
- Lack of Awareness That D/D Changes Can Be Huge, Not Incremental (JC Penney: Buttons and Button Holes for Arthritis)
- Lack of Appreciation for Infrastructure Changes Required (can be huge)
- Lack of Appreciation for Data Base Marketing Requirements

Baseline

Future State

What Has to Change



Adapt Approach for Diversity

Example: Nestle, Anheuser-Busch,

Increasing the diversity of markets and customers served in existing locations, Adapt for Diversity achieves growth by developing the insight and understanding necessary to address cultural, ethnic, lifestyle, demographic and other differences of new customer categories.

**Appropriate Critical
Success Processes**

- Market Research
- Networking/Board of Directors
- Co-opting/Influence
- Regulatory
- Promotion
- Packaging
- Relationships
- Voice of the Customer (Day in the Life)
- Piloting/Test

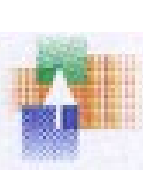
**Applicable Process and
Culture Barriers**

- “Differences” Myopia/Blindspots
- Lack of Flexibility in Processes
- Financial Targets Prevent Commitment
- “Cancer in the Culture” (Denny’s)

Baseline

Future State

What Has to Change



Accompany Customers

Example: Apple, Cadillac, Toyota

Building on customer relationship strengths, Accompany Customers achieves growth by increasing the effectiveness of customer relationships/communication and market positioning to ensure that customers are retained as they move up-scale and/or beyond current scope.

Appropriate Critical Success Processes

**Customer Relationship
Capacity/Demand/Variety
Customer Dialogue
Core Competency Upgrade
Fulfillment
After Sales Service
JV/Alliance**

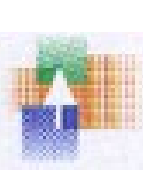
Applicable Process and Culture Barriers

**Lack of Customer for Life Attitude
("Turnover of customers is assumed")
Lack of Flexibility (Manufacturing,
packaging, etc.)
Company Centric
Lack of Ability for On Line Dialog
with Customers**

Baseline

Future State

What Has to Change



Preempt Competition

Example: USAA Financial Services Co., Wal-Mart

Preempt Competition achieves growth by identifying significant new competitive actions that can be taken to aggressively capture new strategic growth opportunities at world class speed, while decisively neutralizing competitors' recognition and/or pursuit of same.

Appropriate Critical Success Processes

- Executive/Management Processes (R/A, Planning w/ Gates, etc.**
- Compensation (Equity/Quasi Equity Vehicles)**
- Marketing/Visibility/Market Signaling**
- Government Lobbying**
- D/D**
- Launch/Roll-Out**
- Fulfillment**
- After Sales Service**
- Competitor Monitoring**

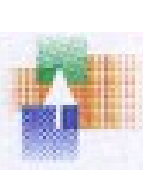
Applicable Process and Culture Barriers

- No Streetfighter Capability/Gumption**
- No Market Signaling/Security Skills**
- Ineffective Wall Street Communication Skills**
- No Competitive Intelligence Skills**

Baseline

Future State

What Has to Change



Pursue Previously Inaccessible Opportunities

Example: Internet, Space, Voice, Miniturization, Virtual Reality, Grocery Delivery

Pursue Previously Inaccessible Opportunities achieves growth by creatively developing and orchestrating the collective capabilities of the (virtual) organization to capitalize on emerging, but previously inaccessible opportunities.

Appropriate Critical Success Processes

**Intellectual Capital Inventory
Opportunity Scanning/Creativity to Link to Previous Ideas/Business Cases
Human Resources
JVs, Alliances, Acquisitions
Capital Relationships
Deal Making**

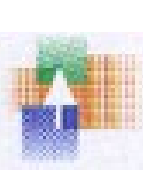
Applicable Process and Culture Barriers

**Newness Bias (Both Ideas and Talent)
Lack of Clarity to Link Disparate Ideas (Too Much Clutter)
“Shoot the Early Warning Messenger”
Lack of Systemic/Dynamic Thinking and Action
Comfort Bias**

Baseline

Future State

What Has to Change



Create Whole New Businesses

Example: Thermo Electron, GE, Virgin Atlantic

Create Whole New Businesses achieves growth by fostering the entrepreneurship, foresight and creativity necessary to imagine latent opportunities and by creating owner wealth mechanisms to cause the opportunity to become manifest at world class speed.

**Appropriate Critical
Success Processes**

- Business as Portfolio Process**
- Human Resources/Talent**
- Compensation (Equity/Quasi
Equity)**
- Owner Wealth Disciplines**
- Organization Structuring Process**

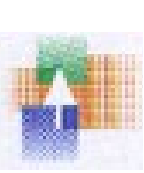
**Applicable Process and
Culture Barriers**

- Tolerance of Wrong Person in Wrong Job**
- Internal Promotion/Fill From Within Bias**
- Poor Assimilation of New Talent - “NIH”
Factor**
- Risk Averse Culture**
- Core/Founding Business Centric/Bias**

Baseline

Future State

What Has to Change



Become the Defining Entity

Example: Microsoft in Its Day, Wal-Mart, Apple

Become the Defining Entity achieves growth by conceiving the currently unimaginable by incumbents and creating and taking actions of such collective power that they cause entire new business or industry forms to emerge, at world class speed.

**Appropriate Critical
Success Processes**

**Business As Venture Capital Process
Business As Portfolio Process
Human Resources/Talent
Compensation (Equity)
Owner Wealth Disciplines
Managing Standalone Businesses
in the Midst of a Corporate Shell**

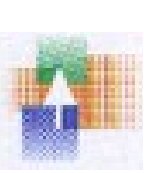
**Applicable Process and
Culture Barriers**

**Lack of Visionary/Process Oriented
Board of Directors
Micromanagement of Stand Alone
Businesses
Tolerance of Wrong Person in Wrong Job
Internal Promotion/Fill From Within Bias
Poor Assimilation of New Talent - “NIH”
Factor
Risk Averse Culture
Core/Founding Business Centric/Bias**

Baseline

Future State

What Has to Change



Peeling the Onion: Getting to SPIR:

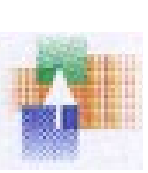
3. Top line revenue growth –

Many times firms are under-resourced in their marketing and sales processes and/or have fallen complacent in actively communicating to current and prospective new customers their customer value proposition and how much customer satisfaction they do and can supply.

A bold approach to Customer Relationship Management that includes advertising, public relations, drumbeat communications and follow up is all that is necessary to generate new profitable revenue growth. Advancements in web based Customer Relationship Management software and associated processes can be a fairly easy and rewarding strategic initiative.

Once launched, Top Line Revenue Growth should become a second nature part of the On-going work of the firm:

- Profitable growth at the right pace
- Price increases through higher customer willingness to pay and/or
Increases in quantity sold;
- Investments (including mergers/acquisitions) for growth to acceptable scale at the shortest time possible or prudent.
- Increases in customer satisfaction and loyalty



Peeling the Onion: Getting to SPIR:

4. World class strategy execution –

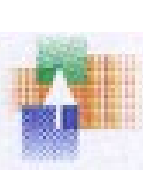
Please see our World Class Strategy Execution course in the Learning Modules section. This is based on my 2004 book, *The New Science of Strategy Execution: How Established Firms Become Fast, Sleek Wealth Creators*, Praeger.

Our approach is to execute strategy via current and new strategic initiatives outside of the On-going work of the firm to bring venture capital and private equity disciplines inside of the established firm.

Strategic initiatives, once completed through the Initiative Management Process, find a home in the On-going work of the firm.

World class strategy execution – should have:

- The greatest number of strategic initiatives hitting planned performance targets at
- The shortest time and at
- The lowest cost to complete.



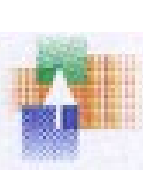
Peeling the Onion: Getting to SPIR:

5. Enterprise Wide Risk Management –

Enterprise wide risk management – an approach for identifying and understanding insurable and non-insurable risks and an approach to mitigate these risks

We introduce the concept of the Risk Pie. This is the sum total of risks that face an entire enterprise. The size of the pie increases or decreases from year to year and the reader will notice this is a kind of an enigma. How do we know what we do not know the reader might ask? A good framework for enterprise wide risk management will have placeholders for every kind of risk possible. At any given time period for a company, various risk categories will be in action and others dormant. But good risk management is proactively searching for risk occurrences in those categories deemed dormant. So the enterprise-wide risk management should:

Increase the share of total insured and non-insured risks understood at any time period;
Remove the “fuzzy front end” of uncertainty around every key risk category in the shortest time possible or prudent.

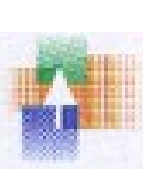


Peeling the Onion: Getting to SPIR:

6. Drivers of Firm Valuation –

We copy the Drivers of Firm Valuation from Component #9 in the next slide.

For us leading and managing a firm to be a wealth creator is not all financial in orientation. Please consider Bill George's quote when he was CEO of Medtronic, a run-a-way wealth creator.

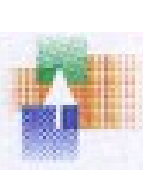


Drivers of Firm Valuation

- Sales growth rate
- Operating profit margin
- Tax expenses
- Incremental working capital
(investment needed to drive sales
Increase)
- Incremental fixed capital (investment
needed to drive sales increase)
- Minimum Required Rate of Return =
Weighted Average Cost of Capital
- Competitive advantage duration
period



**Direction Required
for Contribution to
Increasing Company
Value**



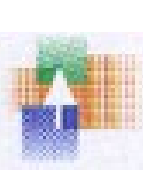
All of this seems pretty technical from a finance perspective correct?

These valuation relationships are the end result of competition. The means to the end of reversing downward fade are very much different in my view and experience.

Please consider the quote from Bill George, then Chairman and CEO of Medtronic, a run-a-way shareholder wealth creator for many years:

“The best path to long-term growth in shareholder value comes from having a well-articulated mission that inspires employee commitment. Companies that pursue that mission in a consistent and unrelenting manner will create greater shareholder value than anyone believes possible. There are simply no shortcuts to creating long-term shareholder value. Sustainable growth cannot be achieved by a series of short-term actions. Real value can only be created by the hard work of dedicated, motivated employees who develop innovative products and services, establish intimate customer relationships, and build organizations over an extended period of time”

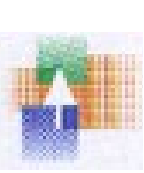
What do you think of Bill George’s statement?



12. Six Key Elements and Relation to SPIR – Detail Bases for Competitive Advantage and Wealth Creation

Lessons Learned and Further Things to Think About and Do:

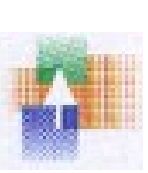
Please see the next two slides for our “recipe” for leading and managing shareholder value



Road to Improvement in Firm Valuation Based on the Six Elements

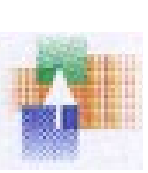
1. Baseline Assessment of the Six Elements
2. Set Out Goals For World Class (or at least improved) Status Relative to Baseline for Each Element
3. Lay Out Practical and Prudent Time Line for Order and Start Date of Key Improvement Initiatives
4. Install the *Initiative Management Process** as the Key Executive Process (Component #8)

* See Bigler, *The New Science of Strategy Execution: How the Established Firm Becomes a Fast, Sleek Wealth Creator*, Praeger, 2004

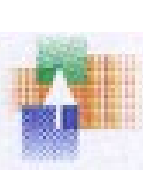


Road to Improvement in Firm Valuation

5. Practice *Best Practice* Change Management to Help Foster a Change Mindset
6. Set Out Metrics Via Dashboards That Are Lead and Lag in Nature for Monitoring
7. Lead and Manage Barrier Identification and Management
8. Practice the Discipline of Continuous Performance Improvement to Set the Bar Higher as Success and Confidence Take Hold



13. Six Key Element Metric Concepts in the Context of SPIR Provide An Action Measurement Drumbeat



13. Six Key Element Metric Concepts in the Context of SPIR Provide An Action Measurement Drumbeat

Soundbite:

We firmly believe if you cannot measure something, you really cannot fully understand it. In this Component, we offer what we call an Element Metric Concept. This is because some of the measures have two divisors in them. But you can see the directionality required for a high measure and thus good to great solution for the six Elements.

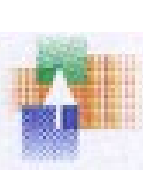
Fatal Flaws If Soundbite is Ignored:

Most established firms have some system of measures. So there is not a fatal flaw here for most firms. What you forego is the ability to set out an improvement path based on improving the measures from your baseline current situation.

What You and Your Firm Should Do Right Now:

Assess whether you have data that has integrity for each measure (or how to obtain the data) and set out baseline measures and set goals for improvement over a set time span. Best is aligning the improvement timing with your market rhythm.

Optional Detail Follows:



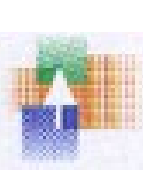
Metric Concepts for Each of the Six Keys

In the next six slides you will see a formula that has a Numerator and a Denominator(s).

For each formula we would like to see an **Increase** in the Numerator and a **Decrease** in the Denominator(s) *for movements that will increase the value of your firm.*

These formulas that represent a Private Equity, Venture Capital and Operations mindset

You will also see the tools I have developed for each of the six elements of strategic management that have proven to be valuable for firms over the years. These are continually updated with new knowledge.



1. Robust Competitive Strategy Example Tools or Approaches

Customer Willingness to Pay

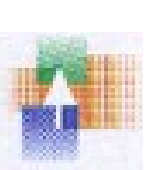


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Total Cost Per Unit Sold to Deliver Customer Benefits



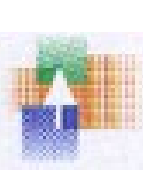
1. Robust Competitive Strategy Audit
2. Assessment of Customer Willingness to Pay and Propensity for Loyalty
3. Assessment of Cost Drivers
4. Assessment of Firm and Competitors' "Cost Stacks"
5. Assessment of Position on the Industry Profit and Productivity Frontier
6. Assessment of Current Business Model
7. Assessment of Current Strategy Producing Free Cash Flow
8. Recommendations for Continual Improvement



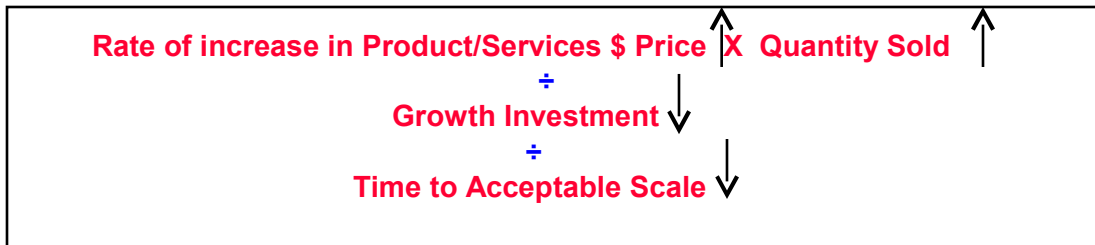
2. Innovation Example Tools or Approaches



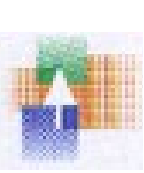
1. Assessment of Current Approach to Innovation and Stage of Embedment
2. Assessment of Current Innovation Pipeline
3. Assessment of Current Financial Contribution by Innovation Efforts
4. Prediction of Likely Increase in Firm Valuation From Current Innovation Pipeline
5. Recommendations for Enhancing the Innovation Pipeline
6. Recommendations for Possible Change in Current Approach to Innovation
7. Predict Enhanced Increase in Firm Valuation from New Innovation Pipeline



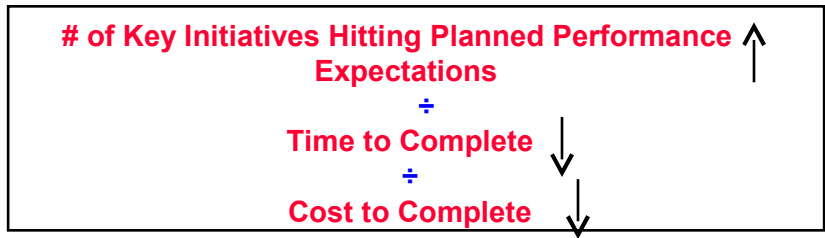
3. Profitable Growth Example Tools or Approaches



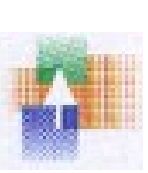
1. Assess Current Revenue Growth Goals
2. Assess Contribution to Current Revenue Growth From Price Increases, Quantity Sold Increases or Both
3. Assess Ratio of Current Dollar of Growth Investment Per Dollar of Revenue Increase
4. Assess and Calibrate A Sustainable and Profitable Growth Rate Goal
5. Assess the Alignment of Current Capacities and Processes to Support the Sustainable Growth Goal
6. Recommend Changes for Continual Improvement
7. Interface With Human Resources for Resource Shortfall and Supply Chain and Operations for Capacities Shortfalls



4. World Class Strategy Execution



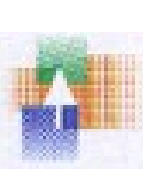
1. Apply *AAME For GOLD™** Strategy Execution Diagnostic
 2. Score on 4 Bs Grid (*Getting Better, Getting Bigger, Getting Broader, Getting Bolder*) as Baseline Situation
 3. Deploy Current Initiatives History Audit
 4. Install the Initiative Management Process (IMP) as a Key Executive Process
 5. Enable the IMP With Excel Spreadsheet or Software
 6. Lead and Manage Initiatives Through the IMP Four Phases and Gates
 7. Forward-Cast Likely Impact of Initiatives in the IMP Pipeline on Firm Valuation
 8. Practice Continuous Improvement Process if a Shortfall in Expected Valuation Ensues
- *AAME For GOLD = Assessment, Architecture, Mobilization and Entrepreneurship for Growth Opportunities at Lightning Deployment



5. Enterprise Wide Risk Management

Share of Total Insured and Uninsured Risk Pie Understood \uparrow
 \div
Time to Remove “Fuzzy Front End” Uncertainty in the Risk Pie \downarrow

1. Deploy the Risk Universe Audit Tool
2. Deploy the Process Universe Audit Tool (if needed)
3. Generate Green, Yellow, Red “Heat Matrices”
4. Initiative Immediate Projects for Red Risk Areas

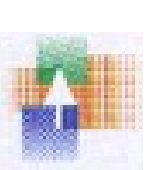


6. Increasing the Drivers of the Value of Your Firm

Free Cash Flow ↑ X Duration of Time Into the Future Of Favorable Free Cash Flow (# of months) ↑
÷
Time to Prove Free Cash Flow Is Sustainable ↓

1. **Model Drivers of Free Cash Flow in Excel** (*in conjunction with the CFO Office and example spreadsheet available upon request*)
2. **Assess Cumulative Impact of Elements #1-5 to**
3. **Assess Time in Months to Favorable Competitive Advantage Period**
4. **Improve In Priority Order The Drivers of the Value of Your Firm**
5. **Use the *Business Performance Engine** as a Key Planning Tool**

•The *Business Performance Engine* is a framework I developed while on the Board of Directors of Nitro Security to unite the board, top management team and key middle managers to “turn on a dime” together to grow the market value for sale or IPO



“Crow’s Nest” View of the Metric Concepts for the Six Elements

1. Robust Competitive Strategy =
 Customer WTP ↑ ÷ Total Delivery Cost ↓

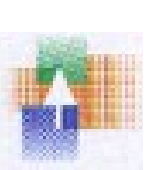
6. Drivers of Firm Valuation =
 Free Cash Flow ↑ X Competitive Advantage Period ↑ ÷
 Time to Prove Free Cash Flow Is Sustainable ↓

5. Enterprise Wide Risk Management =
 Share of Total Insured and Uninsured Risk Pie Understood ↑ ÷
 Time to Remove “Fuzzy Front End” Uncertainty ↓

4. World Class Strategy Execution =
 # Strategic Initiatives Hitting Planned Performance ↑ ÷
 Time to Complete ↓ ÷
 Cost to Complete ↓

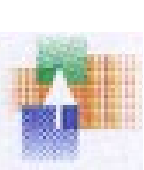
2. Innovation =
 # Innovation Competencies ↑ X # New Wins
 ÷
 Innovation Investment ↓
 ÷
 # Hrs Expended ↓ ÷
 Time to Positive Cash Flow ↓

3. Profitable Growth =
 Rate of \$ Price ↑ X Quantity Sold ↑ ÷
 Growth Investment ↓ ÷
 Time to Acceptable Scale ↓



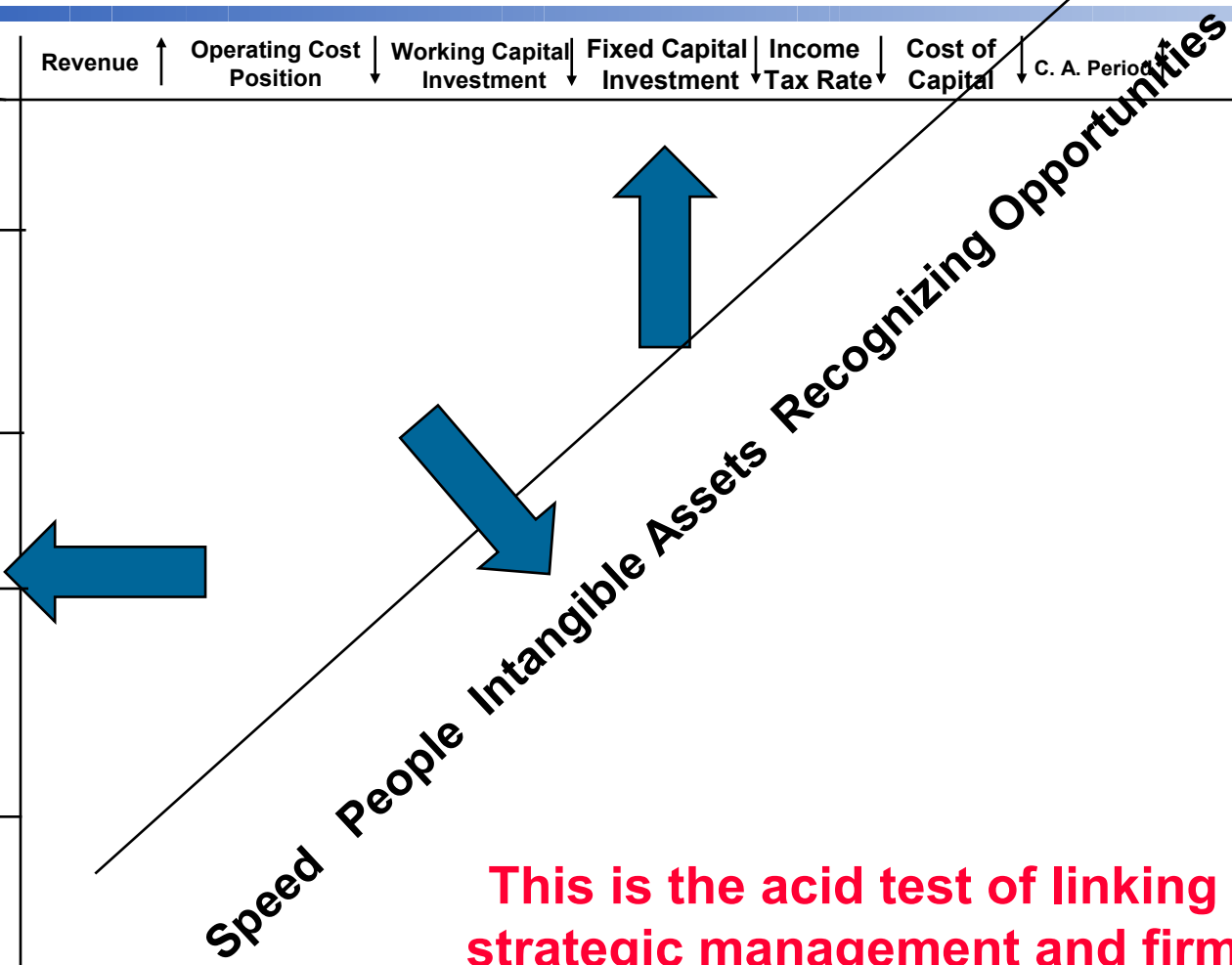
Aligning the Element Metric Concepts With the Classic Drivers of Shareholder Wealth

Shareholder Wealth Drivers Element Metric Concepts	Revenue ↑ Operating Cost Position ↓ Working Capital Investment ↓ Fixed Capital Investment ↓ Income Tax Rate ↓ Cost of Capital ↓ C. A. Period ↑
<p>1. Robust Competitive Strategy = Customer WTP ↑ ÷ Total Delivery Cost ↓</p>	<p>Speed People Intangible Assets Recognizing Opportunities</p>
<p>2. Innovation = # Innovation Competencies ↑ X # New Wins ↑ ÷ Innovation Investment ↓ ÷ # Hrs Expended ↓ ÷ Time to Positive Cash Flow ↓</p>	
<p>3. Profitable Growth = Rate of \$ Price ↑ X Quantity Sold ↑ ÷ Growth Investment ↓ ÷ Time to Acceptable Scale ↓</p>	
<p>4. World Class Strategy Execution = # Strategic Initiatives Hitting Planned Performance ↑ ÷ Time to Complete ↓ ÷ Cost to Complete ↓</p>	
<p>5. Enterprise Wide Risk Management = Share of Total Insured and Uninsured Risk Pie Understood ↑ ÷ Time to Remove "Fuzzy Front End" Uncertainty ↓</p>	
<p>6. Drivers of Firm Valuation = Free Cash Flow X Competitive Advantage Period ↑ ÷ Time to Prove Free Cash Flow Is Sustainable</p>	

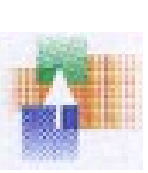


Aligning the Element Metric Concepts With the Classic Drivers of Shareholder Wealth and SPIR

Shareholder Wealth Drivers Element Metric Concepts	Revenue ↑	Operating Cost Position ↓	Working Capital Investment ↓	Fixed Capital Investment ↓	Income Tax Rate ↓	Cost of Capital ↓	C. A. Period ↓
1. Robust Competitive Strategy = Customer WTP ↑ ÷ Total Delivery Cost ↓							
2. Innovation = # Innovation Competencies ↑ X # New Wins ↑ ÷ Innovation Investment ↓ ÷ # Hrs Expended ↓ ÷ Time to Positive Cash Flow ↓							
3. Profitable Growth = Rate of \$ Price ↑ X Quantity Sold ↑ ÷ Growth Investment ↓ ÷ Time to Acceptable Scale ↓							
4. World Class Strategy Execution = # Strategic Initiatives Hitting Planned Performance ↑ ÷ Time to Complete ↓ ÷ Cost to Complete ↓							
5. Enterprise Wide Risk Management = Share of Total Insured and Uninsured Risk Pie Understood ↑ ÷ Time to Remove "Fuzzy Front End" Uncertainty ↓							
6. Drivers of Firm Valuation = Free Cash Flow X Competitive Advantage Period ↑ ÷ Time to Prove Free Cash Flow Is Sustainable							



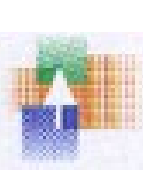
This is the acid test of linking strategic management and firm valuation in our view.



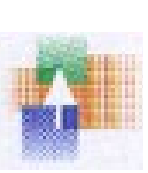
13. Six Key Element Metric Concepts in the Context of SPIR Provide An Action Measurement Drumbeat

Lessons Learned and Further Things to Think About and Do:

You can indeed measure the six Elements. If you link the improvement time table to incentive compensation and performance reviews, you will be surprised at how fast improvement can be



14. Version 1 of Knowledge, Competencies and Behaviors of the Successful Strategy Professional in the For-profit Firm



14. Version 1 of Knowledge, Competencies and Behaviors of the Successful Strategy Professional in the For-profit Firm

Soundbite:

The successful strategy professional in the for-profit firm needs more than just knowledge to be successful. They also need Competencies and Behaviors to be successful in the role.

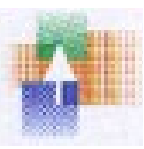
Fatal Flaws If Soundbite is Ignored:

Not becoming proficient in the Knowledge, Competencies and Behaviors as the strategy professional moves from Novice, to Apprentice, to Journeyman, to Virtuoso/Expert will render the professional as an average performer. The strategy professional needs to turbo-charge their Knowledge, Competencies and Behaviors to be a high performer helping to create and grow shareholder value or firm valuation for the private firm.

What You and Your Firm Should Do Right Now:

Advance from your current level of expertise as fast and as prudent as possible. If you are a Virtuoso/Expert, you always have improvement potential.

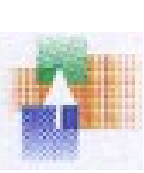
Optional Detail Follows:



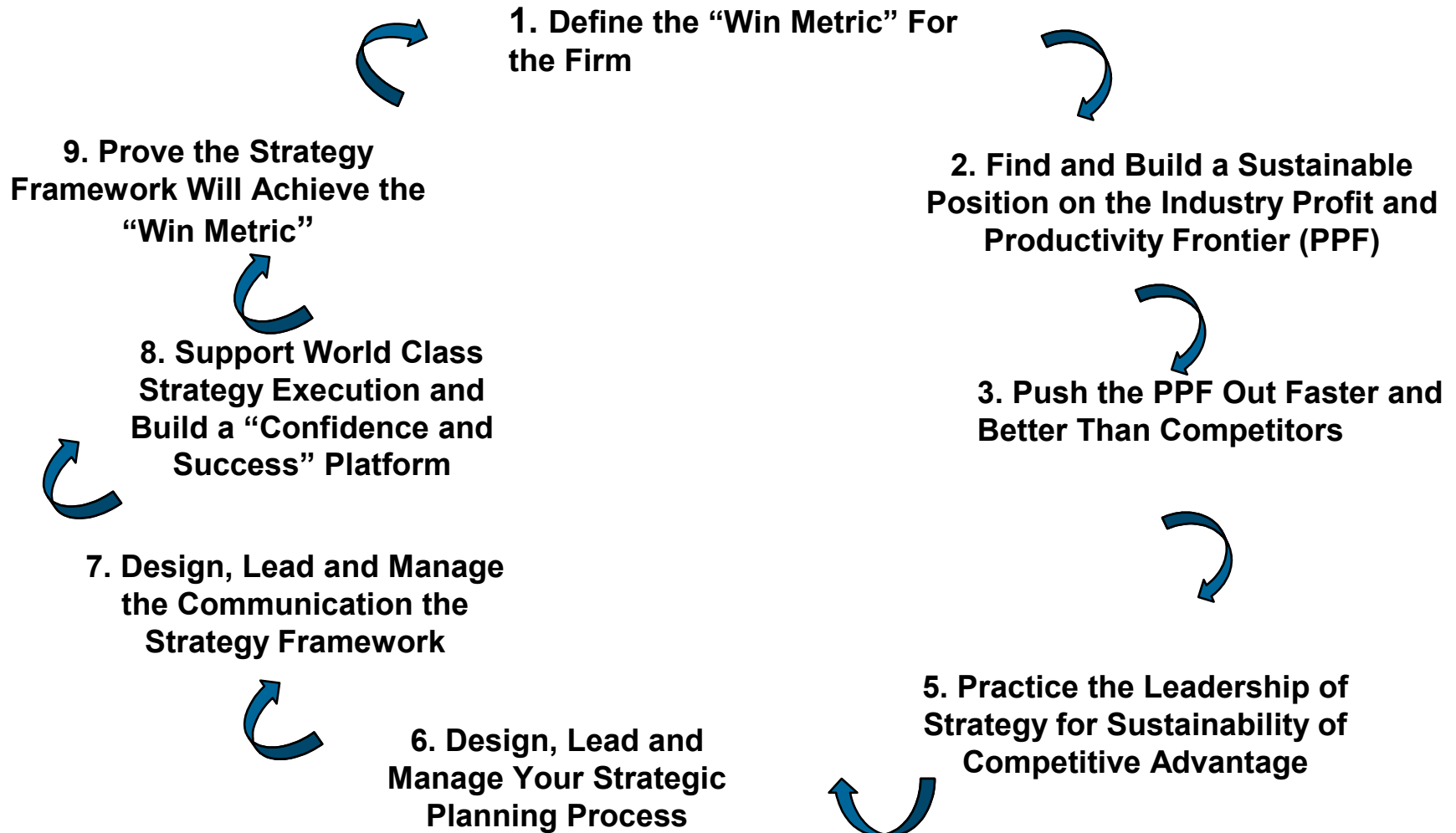
Knowledge, Competencies and Behaviors for the Strategy Professional in the For-profit Firm

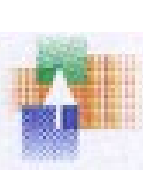
To make the Knowledge, Competencies and Behaviors of should be dynamic and not static, they should be cast in terms of the key accountabilities of the strategy professional depicted in the next slide.

This will allow a clearer depiction of how the KCBs align and drive business results. If successful, the strategist will see a “waterfall effect” of ever increasing performance and business results

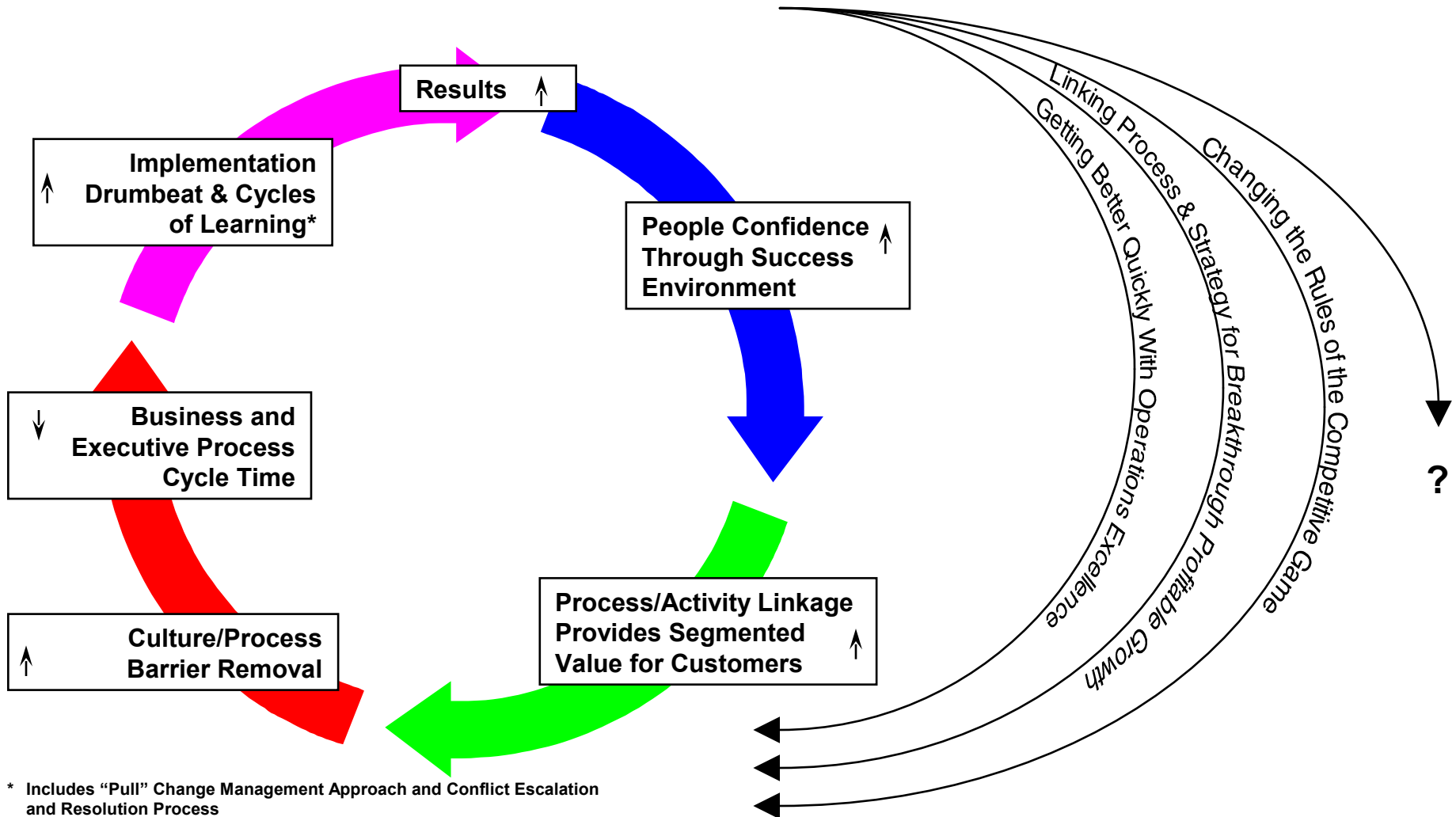


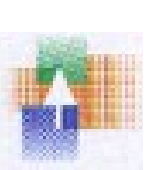
The Accountabilities of the Strategy Professional Are A Dynamic System Leading to Ever Higher Results





The Waterfall Effect: Ever Better Strategic Management Leads to the Potential for Much Greater Results





Knowledge, Competencies and Behaviors of the Successful Strategy Professional in the For-profit Firm

Knowledge Areas

1. Strategy Formulation
2. Innovation in the Established Firm
3. Top Line Revenue Growth
4. Process Design, Management and Leveraging Cross-Process Impacts
5. World Class Strategy Execution
6. Strategic Cost Analyses
7. Strategic Pricing Analyses
8. Enterprise Wide Risk Management
9. Change Management
10. Corporate Level Strategy (if at the portfolio level of strategy)
11. Major New Venture Startups (or Intrapreneuring in the established firm)
12. Shareholder Wealth Disciplines

Key Competencies

Cognitive Competencies

1. Dealing with ambiguity and change
2. Intellectual horsepower
3. Planning and project management
4. Creativity and innovation management
5. Managing vision and purpose

Emotional Intelligence Competencies

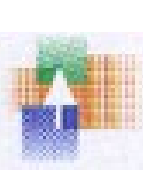
6. Conflict management
7. Peer relationships
8. Developing direct reports
9. Listening
10. Building effective teams
11. Building trust
12. Flexibility

Business Acumen Competency Categories

13. General business acumen and skills for current job (see next slide)
14. Customer focus
15. Organizational agility
16. Strategic agility

Behaviors/Attitudes/Style

1. Perseverance and drive for results
2. Integrity
3. Professional ethics
4. Executive presence
5. Energy and stamina
6. Enjoys leadership of people and processes
7. Appropriately action oriented *and* analytical
8. Is known to develop deep and rich insights and is considered a thought leader
9. Is a team player and not seen as an opportunist
10. Good communicator

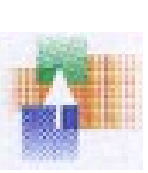


14. Version 1 of Knowledge, Competencies and Behaviors of the Successful Strategy Professional in the For-profit Firm

Lessons Learned and Further Things to Think About and Do:

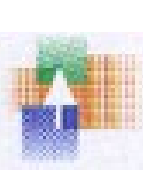
The field of strategy will professionalize from its state as a craft to one where both science and art will be required. Do not hesitate to learn, practice, improve and then start the cycle over again

See presentation titled “Linking the KCBs of the Strategy Professional to Business Results” for more detail and a start at making this linkage in Learning Modules



15. Detailed Strategy Framework Valuation Model*

*** See accompanying Excel Strategy Framework Valuation Spreadsheet**



15. Detailed Strategy Framework Valuation Model

Soundbite:

Components 1 – 14 are one side of the coin. The other is Component 15 where you model and “prove” that what you are doing is expected to increase shareholder value or firm valuation for the private firm.

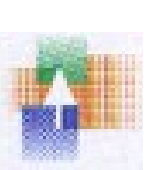
Fatal Flaws If Soundbite is Ignored:

Sub-optimal leadership of your firm to downright mis-application of resources and the destruction of shareholder value or firm valuation

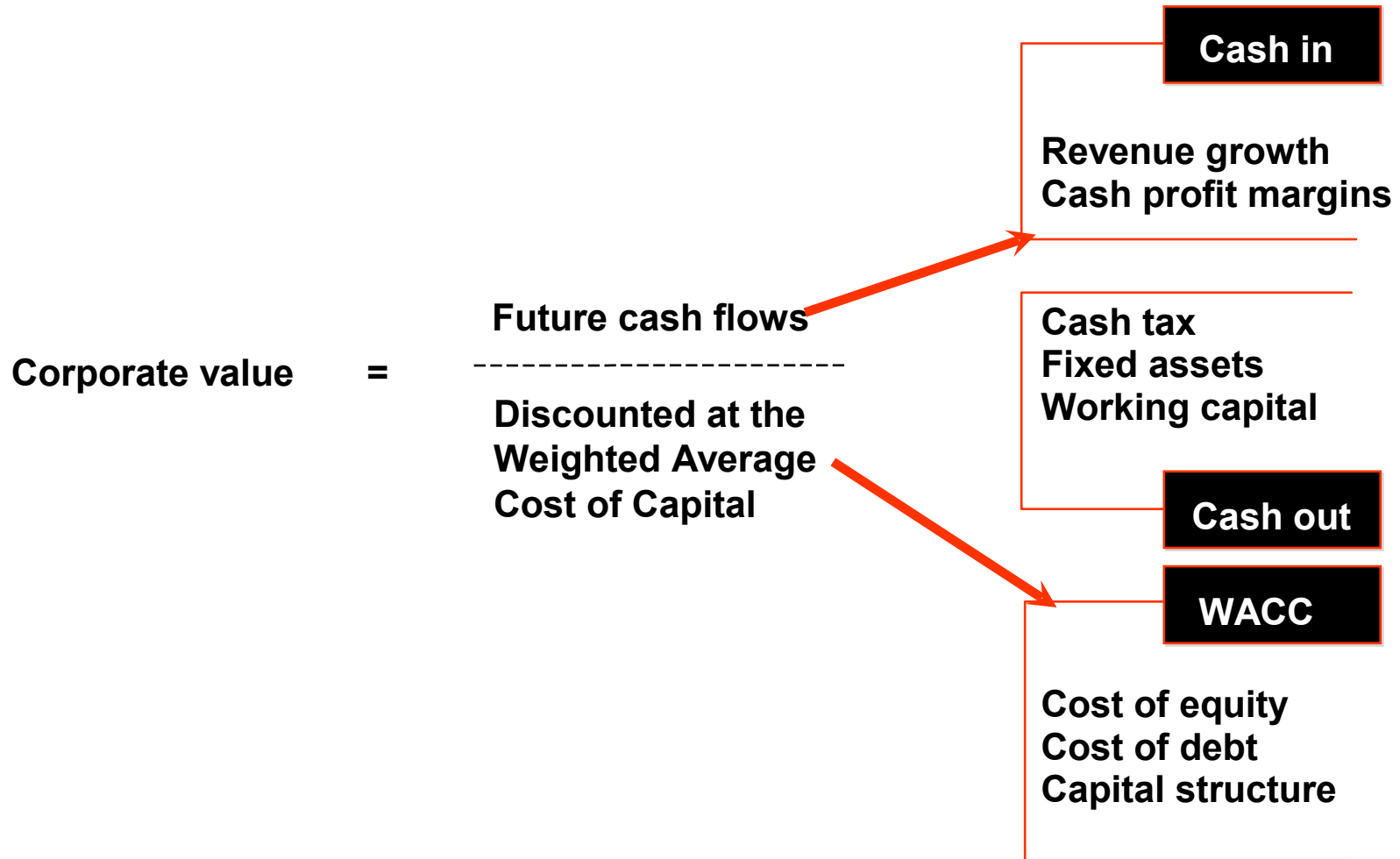
What You and Your Firm Should Do Right Now:

Use the accompanying Excel spreadsheet as a tool to take on the culture and discipline of verifying that what you are doing and planning to do is expected to increase shareholder value or firm valuation

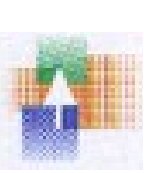
Optional Detail Follows:



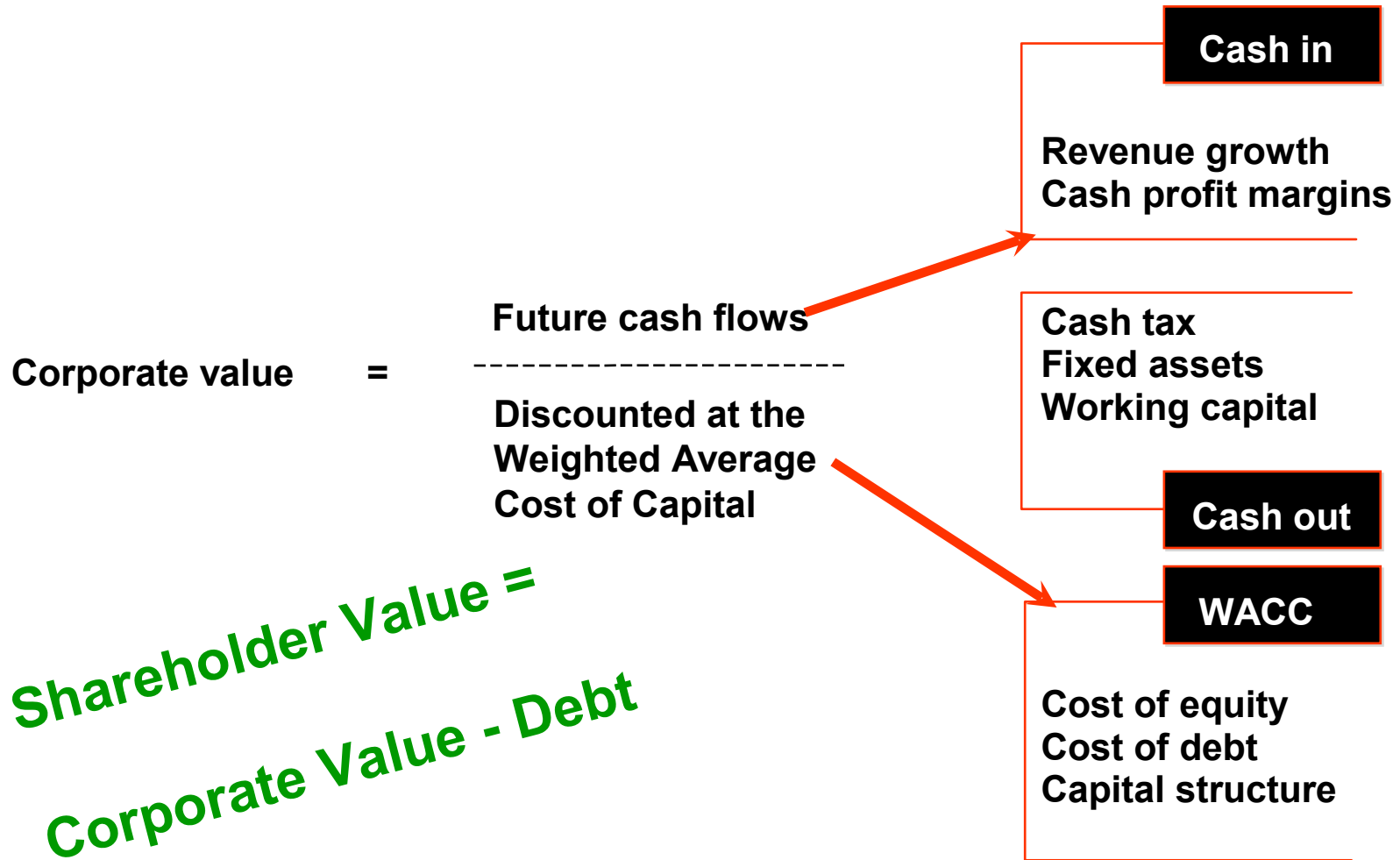
Total Shareholder Return (TSR) is captured by the following Net Present Value concept:



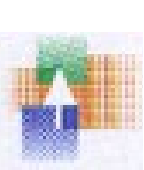
Value Drivers



TSR is captured by the following NPV concept:



Value Drivers



Overview of Our Valuation Spreadsheet

Value Drivers	Expectations	<i>Growth Period of FCF</i>				<i>Fade Period of FCF</i>	
		Year 1 \$(000)	Year 2 \$(000)	Year 3 \$(000)	Year 4 \$(000)		
Revenue*	4.6%	12,660	13,293	14,243	15,098		
EBITDA	12.0-13.5%	1,528	1,743	1,938			
Cash tax	26.0%	397	453	504			
Operating cash flow		1,131	1,290	1,434			
Working capital	30.0%	195	190	285			
Capital expenditures	4.0-3.5%	517	453	448			
Free cash flow		419	647	701			16,434
Est. shareholder value	8,777	N					
Est. value per share	52.46	P					
Recent stock price	49.50**	V					

Weighted Average Cost of Capital is 9.2% based on analyst expectations

* 10-year Compounded Annual Growth Rate

Overview of Our Valuation Spreadsheet

Investors' expectations on each value driver

Growth Period of FCF →

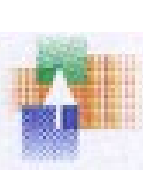
Fade Period of FCF →

Value Drivers	Expectations	Year 1 \$(000)	Year 2 \$(000)	Year 3 \$(000)	Year 4 \$(000)		
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Weighted Average Cost of Capital is 9.2% based on analyst expectations

* 10-year Compounded Annual Growth Rate

Compare Est. Value Per Share of the Strategy to The Current or Recent Stock Price. It must be greater if what you are planning to do is expected to increase shareholder value



15. Detailed Strategy Framework Valuation Model*

Lessons Learned and Further Things to Think About and Do:

Many firms still do not fully understand the need to value what you are currently doing and plan to do with new strategies, initiatives, etc.

This is a violation of the fiduciary responsibility of the board, the top management team and the entire group in a firm charged with strategic management.