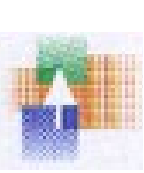


# **Linking the Knowledge, Competencies and Behaviors of the Successful Strategy Professional in the For-profit Firm to Business Results**

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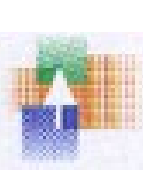
Bill Bigler

February 2013



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3. **Find and Build a Sustainable Position on the Industry’s Profit and Productivity Frontier (PPF)**
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5. **Practice the Ongoing Leadership of the Strategy for Sustainability of the Strategy’s Sources of Competitive Advantage**
6. **Design, Manage and Lead the Strategic Planning Process of the Firm**
7. **Design, Manage and Lead the Communication of the Strategy Framework**
8. **Support World Class Strategy Execution and Build a “Confidence and Success” Platform**
9. **Prove the Strategy Framework Will Achieve the “Win Metric”**

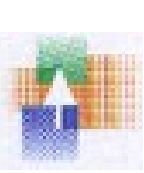


# The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results

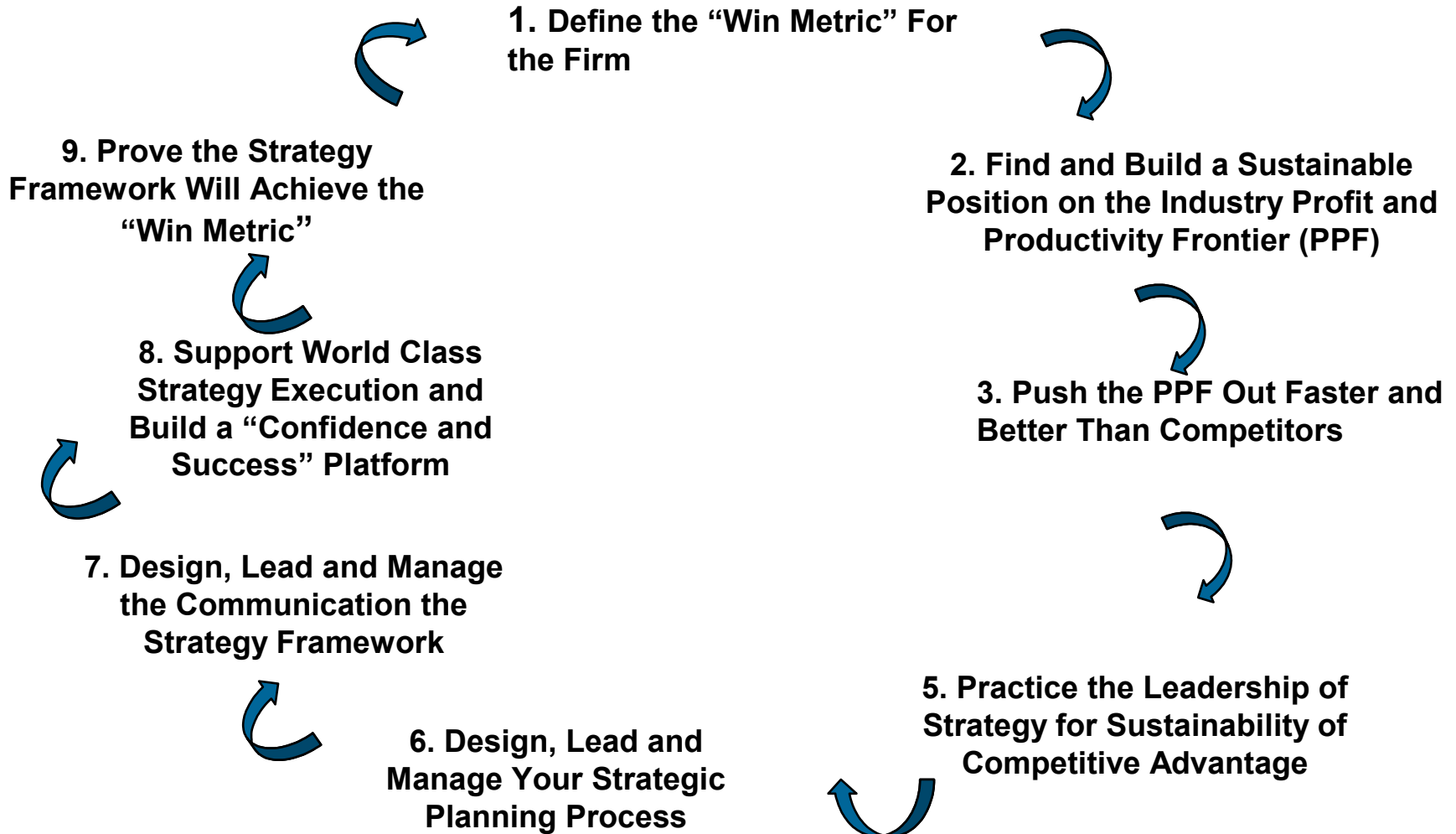
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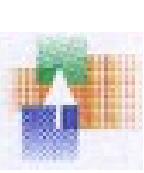
To make the Knowledge, Competencies and Behaviors of the successful strategy professional dynamic and not static, this presentation will be organized around the key job accountabilities the successful strategist must perform on a daily, weekly, monthly and quarterly basis.

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

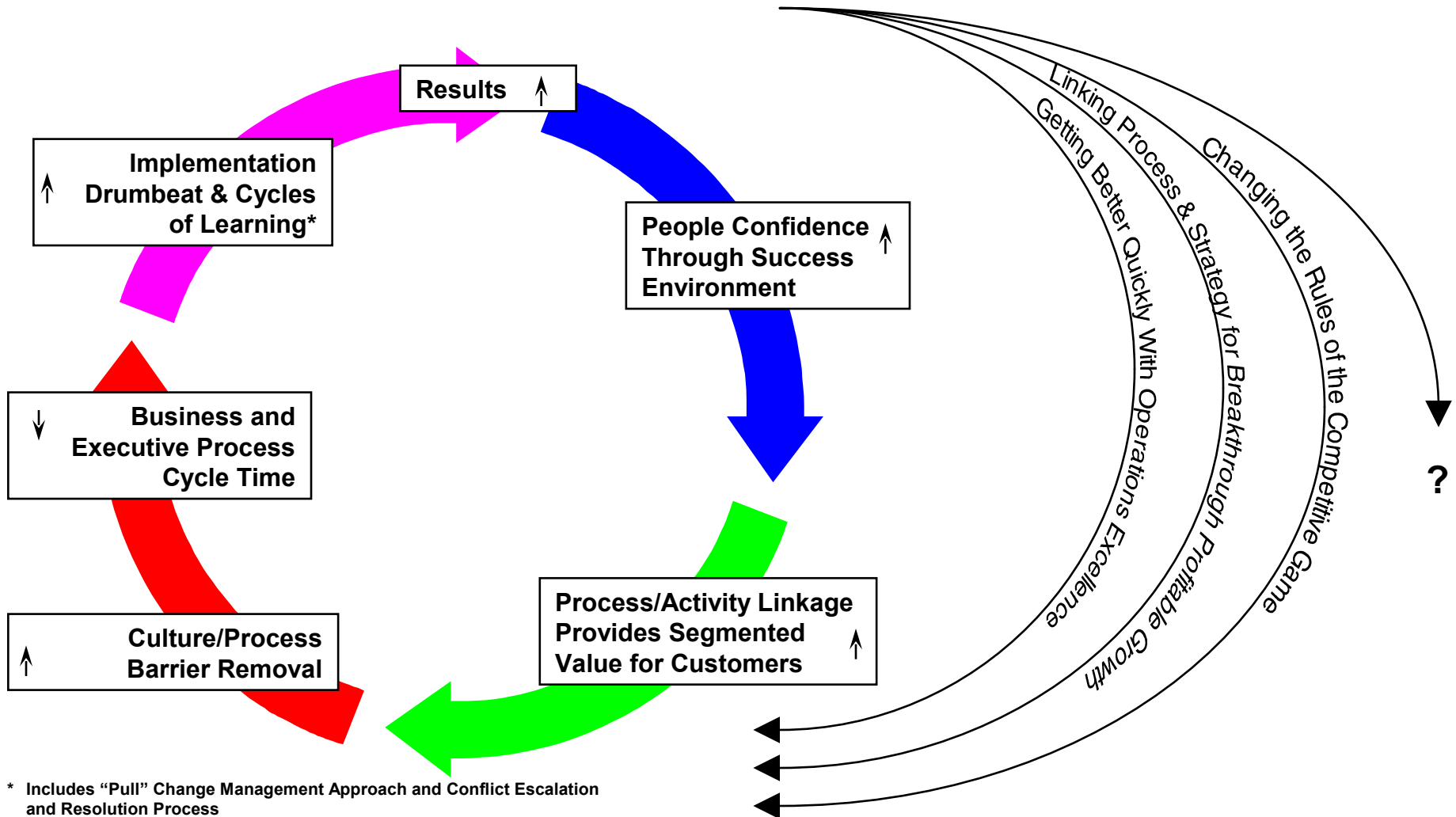


# The Accountabilities of the Strategist Are A Dynamic System Leading to Ever Higher Results

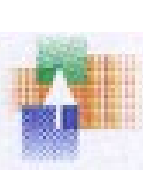




# The Waterfall Effect: Ever Better Strategic Management Leads to the Potential for Much Greater Results



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



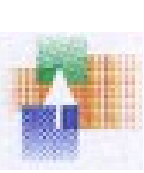
# The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results

This presentation will offer one view of how the Knowledge, Competencies and Behaviors (KCBs) of the successful strategy professional link and cause desired business results.

It is however a work-in-progress and therefore very incomplete as you will see. I invite others who have an interest to join in the conversation.

This presentation will focus at the Business Unit level of strategy for the for-profit business and especially for those that are publically traded. Here, a key measure of results is Total Shareholder Return, which is stock price appreciation plus dividends.

Future variations of this presentation will cover the Corporate Level of strategy, which is the strategy for multiple business units underneath a corporate entity. A future variation will also be in the always exciting space of the major new venture startup, either outside or inside the established firm.

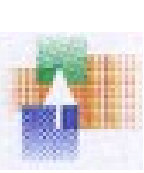


# The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results

The Knowledge and Competencies discussed here reside primarily in the Positioning School of Strategy, most famously promulgated by the Harvard Business School Competitive Strategy group.

The Behaviors come from some research but mostly from observations in the field for what it takes for a strategy professional to be successful in applying the Knowledge and Competencies. In short, what does it take for the strategist “to be able to sit at the table with powerful line executives”? Most strategy professionals are either staff in established organizations or are consultants to businesses. Some are line executives.

Please see the next slide which depicts Henry Mintzberg’s ten schools of strategy thought, plus my addition of the Systems Dynamics School, on which our current Certification BOK is built.

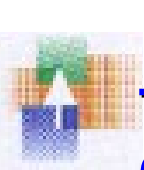


# Ten Schools (Plus 1) of Strategic Management Thought\*

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 via sub-systems of a larger interconnected supra system

\* First Ten Schools From Mintzberg, Ahlstrand and Lampel, *Strategy Safari: Your Complete Guide to the Wilds of Strategic Management*, 2<sup>nd</sup> Ed, Prentice Hall, 2009.

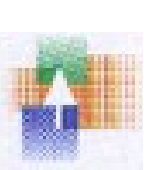




## **The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results**

**The average established for-profit business 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 for the Established Firm

Industry Hardball

Downward Fading Free Cash Flow

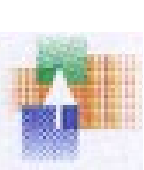
*All successful established firms will experience this through the "crush of competition": the issue is how severe*

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

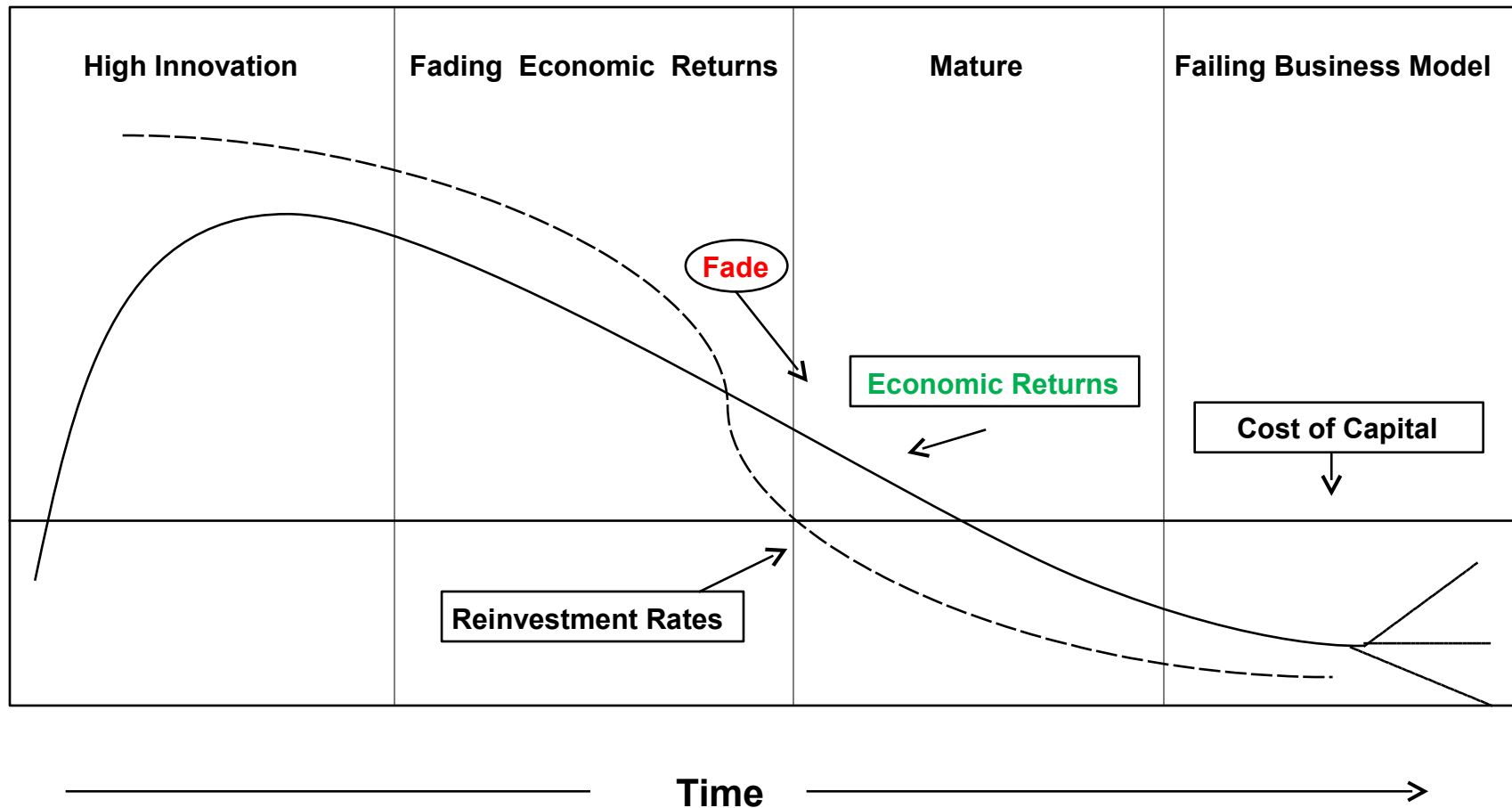
Operations Excellence and Incremental Innovation - 1 in 50 Firms

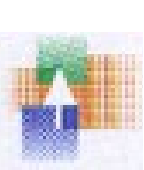
New Product/Service Innovation - 1 in 200 Firms

Change the Rules Innovation - 1 in 1000 Firms

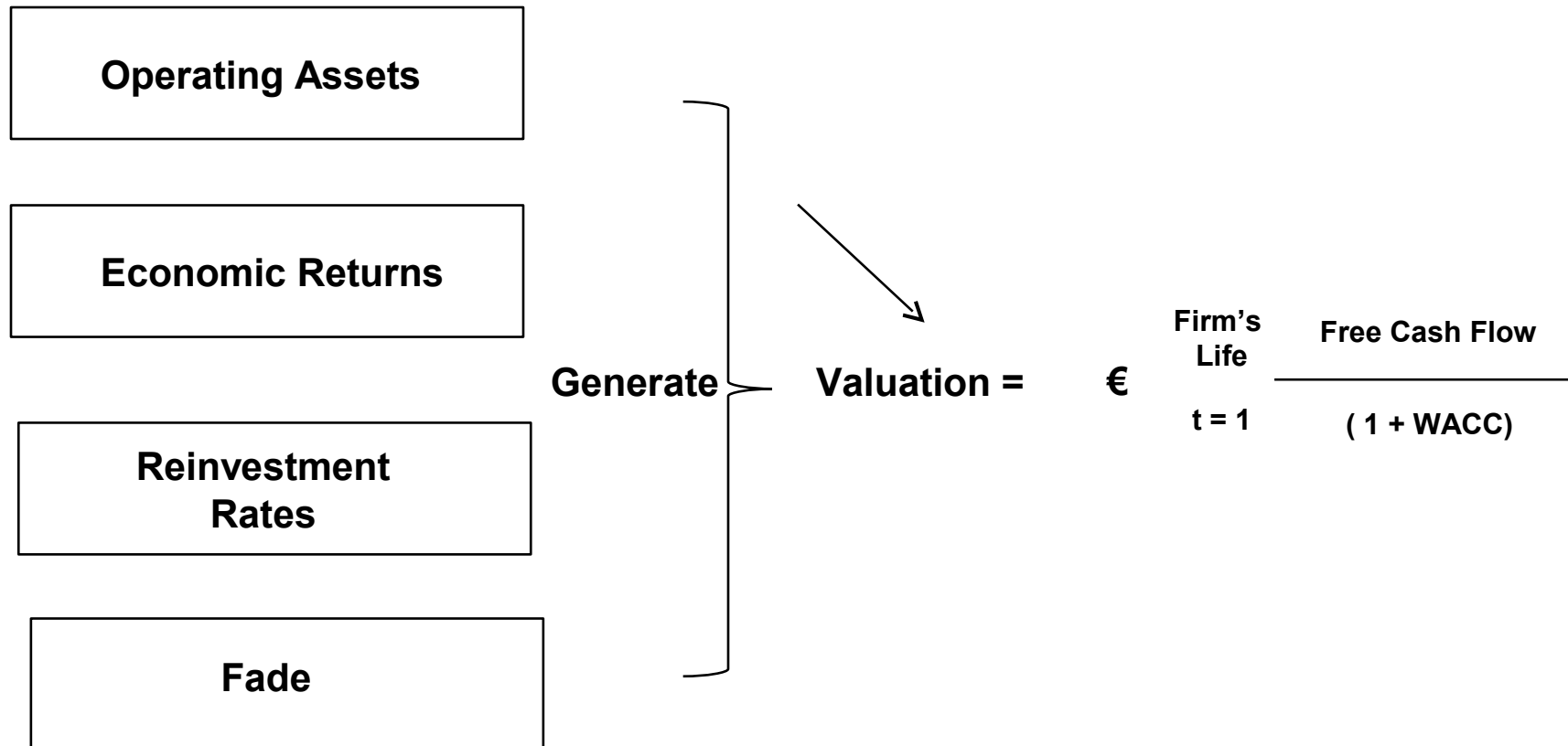


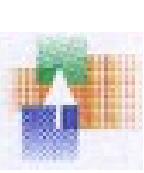
# Business Competitive Life Cycle: Count on “Fade”



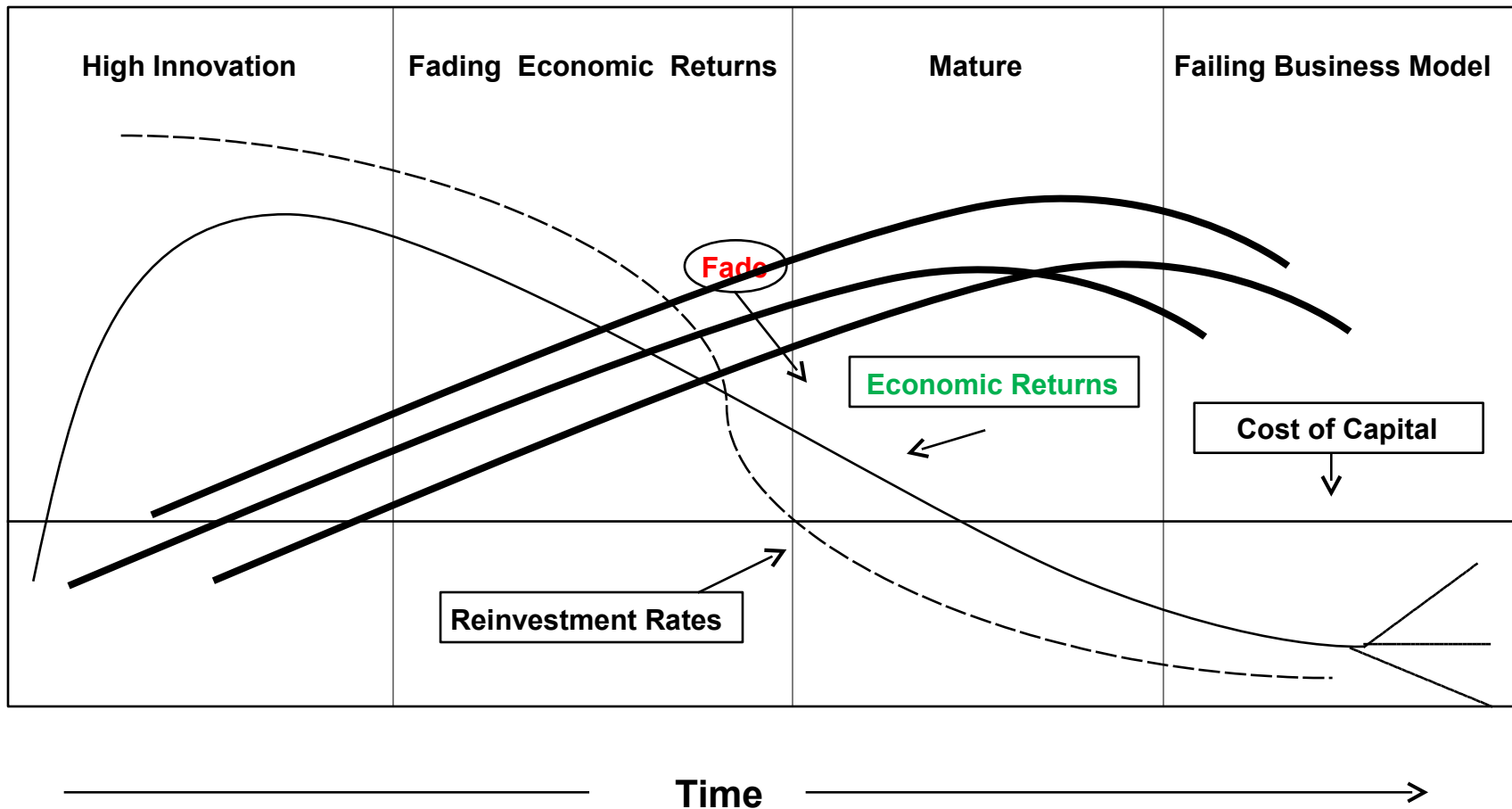


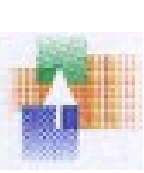
# Life-Cycle Valuation Model





# Counteract “Fade” With New TSR Creating Initiatives and Businesses





# The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results

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

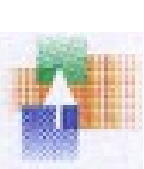
**The means to the end of reversing downward fade is strategic management practiced at world class levels.**

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

*“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 that develop innovative products and services, establish intimate customer relationships, and build organizations over an extended period of time”.*



# Knowledge, Competencies and Behaviors of the Successful Strategy Professional to Increase Firm Valuation Version 1

## 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

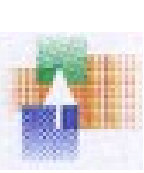
6. Conflict management
7. Peer relationships
8. Developing direct reports
9. Listening
10. Building effective teams
11. Building trust
12. Flexibility

### 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

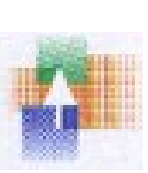


# **The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results**

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## **Suggested Tools for Knowledge, Competencies And Behaviors Under Development**

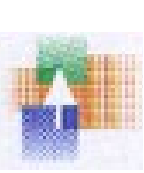




## **The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results**

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**Let's build the story of how our KCBs can be shown to directly help increases in business results.**



# The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results

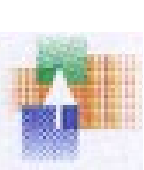
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## 1. Define the Superordinate “Win Metric” For Your Firm

Knowledge Required:

Key Competencies Required:

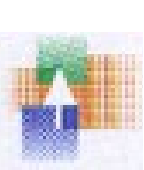
Behaviors/Attitudes/Style Required:



# Business Unit Strategy, Business Model, The Value Chain and Creating Free Cash Flow for Total Shareholder Return

Different Activities Will Be More Important Depending if the Firm is a LCP or Differentiator

Firm Infrastructure					Sales = P X Q  - Operating Expenses Operating Profit  - Income Taxes = Operating Profit After Taxes  Add: Depreciation and Other Non-cash Expenses  Less: Increase in Net Working Capital  Less: Increase in Fixed Capital  Equals: Free Cash Flow from Operations
Human Resource Technology					
Technology Development					
Procurement					
Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Service	



# The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results

## 2. Find and Build a Sustainable Position On the Industry's Profit and Productivity Frontier (PPF)

### Knowledge Required:

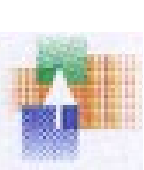
1. Strategy Formulation
2. Innovation in the Established Firm
3. Top Line Revenue Growth
4. Process Design, Management and Leveraging of Cross-Process Impacts
6. Strategic Cost Analyses
7. Strategic Pricing Analyses
11. Major New Venture Startups
12. Shareholder Wealth Disciplines

### Key Competencies Required:

2. Intellectual Horsepower
3. Planning and Project Management
4. Creativity and Innovation Management
5. Managing Vision and Purpose
14. Customer Focus
15. Organizational Agility
16. Strategic Agility

### Behaviors/Attitudes/Style Required:

4. Executive Presence
6. Enjoys Leadership of People and Processes
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



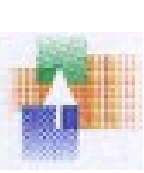
# The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results

Following Dr. Michael Porter's landmark 1996 Harvard Business Review article, titled "*What is Strategy*", an industry's PPF is an "isocurve" drawn using two axes: what is the Total Delivered Cost Per Unit Sold relative to customers' Willingness to Pay.

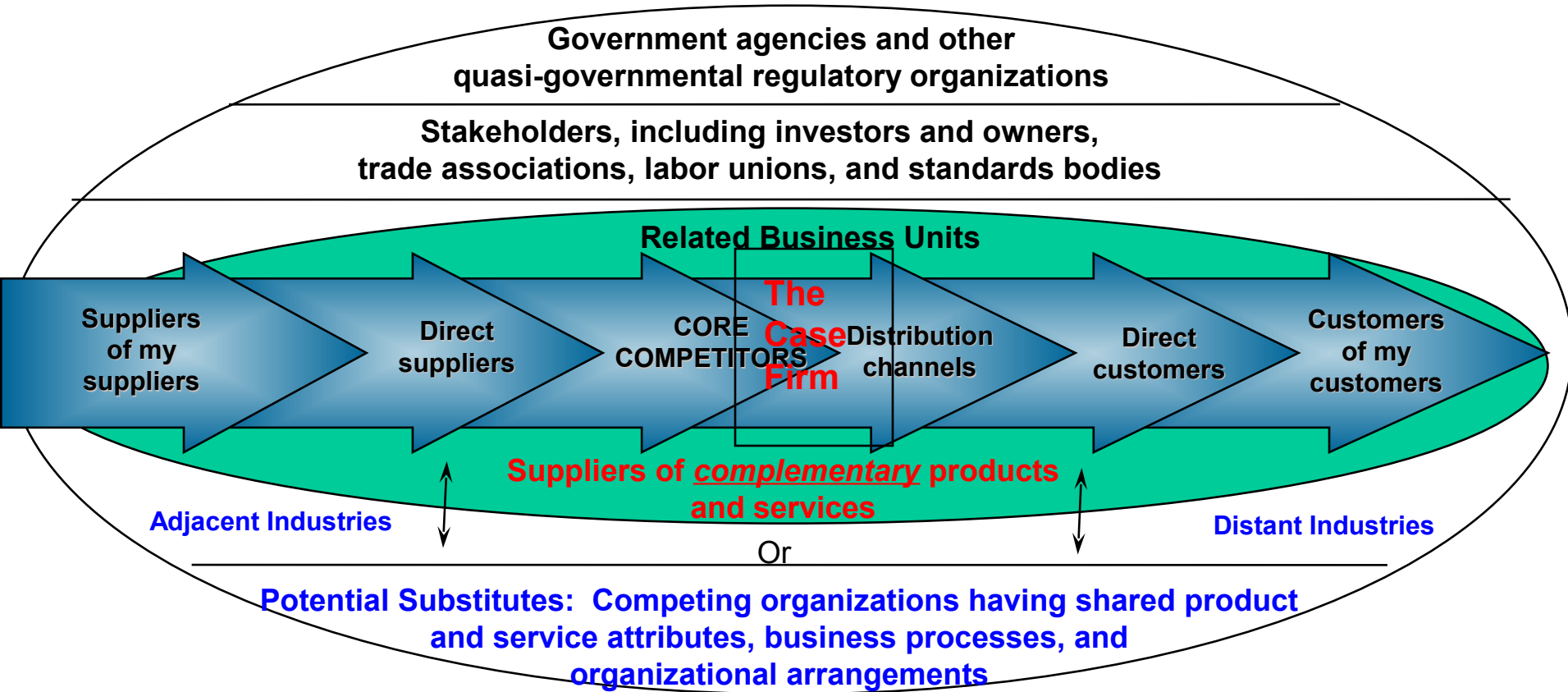
The depiction of the curve represents what is best practice in an industry at the current time point. Best practice is determined by the collective force of the kinds of tools, approaches, processes, technologies, etc. incumbents use. Those firms using best practices expertly will be positioned at a point somewhere on the PPF.

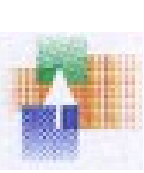
In terms of positions *on the PPF*, there is usually a trade off: firms that have higher total delivered costs per unit sold will have higher Customer Willingness to Pay and enjoy higher prices (upper left) and those who have lower total delivered costs per unit sold will usually have lower customer willingness to pay. Think Neiman Marcus in the upper left and Wal-Mart in the lower right.

Each position can be very profitable so there are no inherently good or bad positions. But what is to be avoided is *not being on the PPF*. Here, for a like position of someone on the PPF, costs are higher and willingness to pay is lower. This is a formula for sub-par business results or even outright failure.

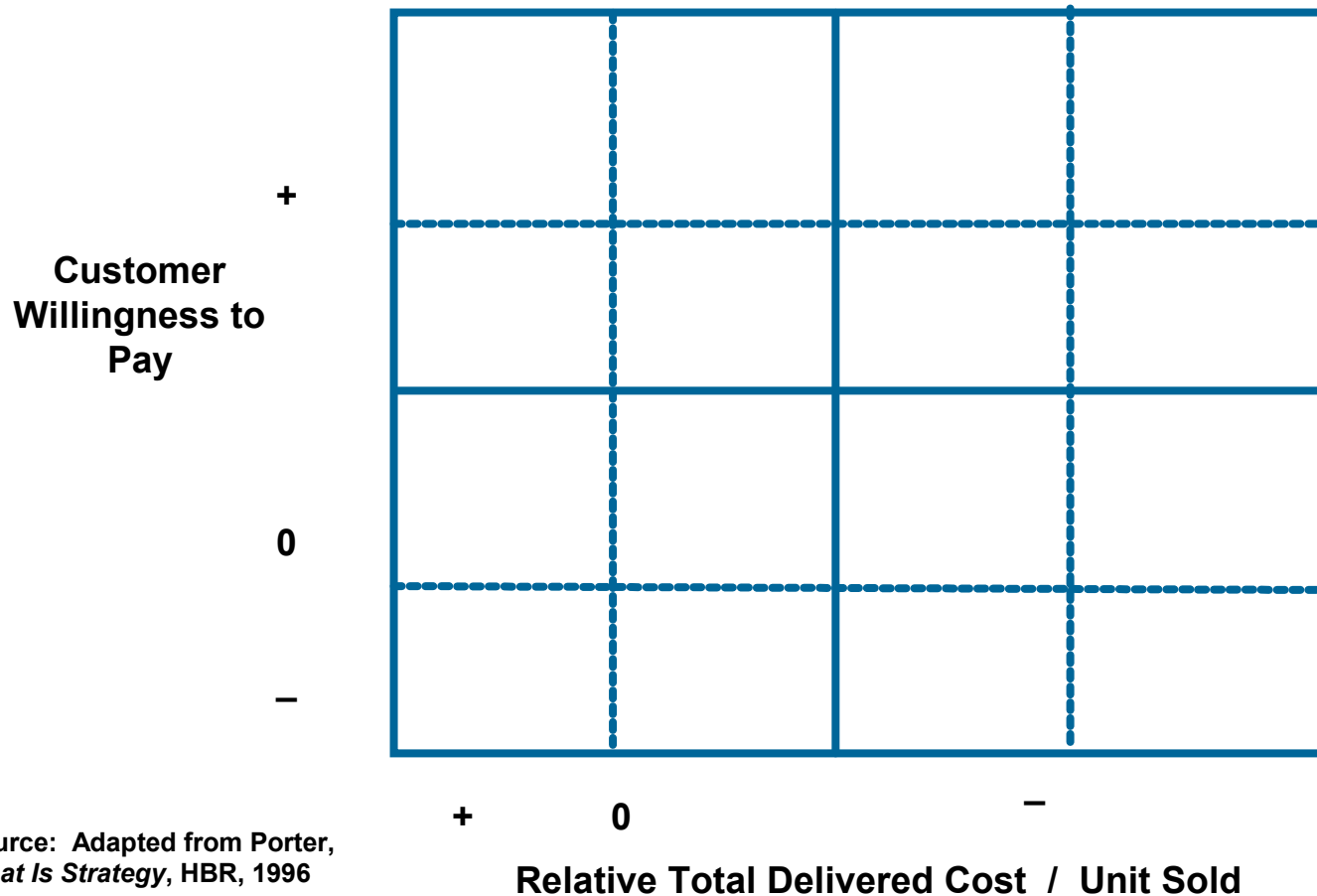


# Extended Enterprise Environment Describes The “Playing Field” for the Industry’s Profit and Productivity Frontier

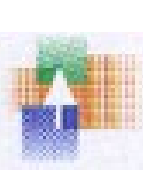




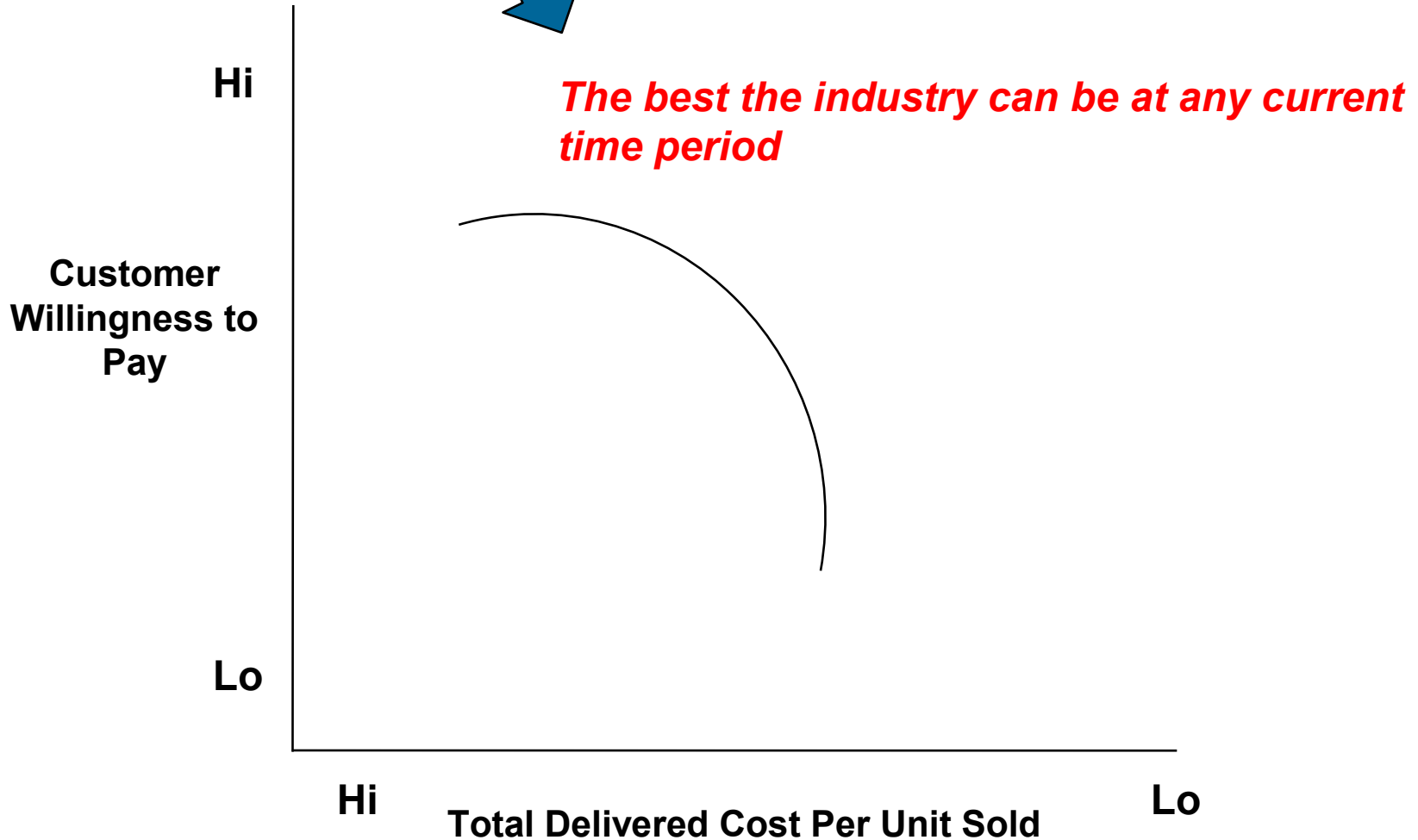
# What is The Profit/Productivity Frontier?



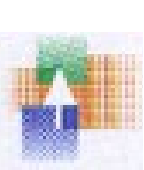
Source: Adapted from Porter, *What Is Strategy*, HBR, 1996



# What is The Profit/Productivity Frontier?

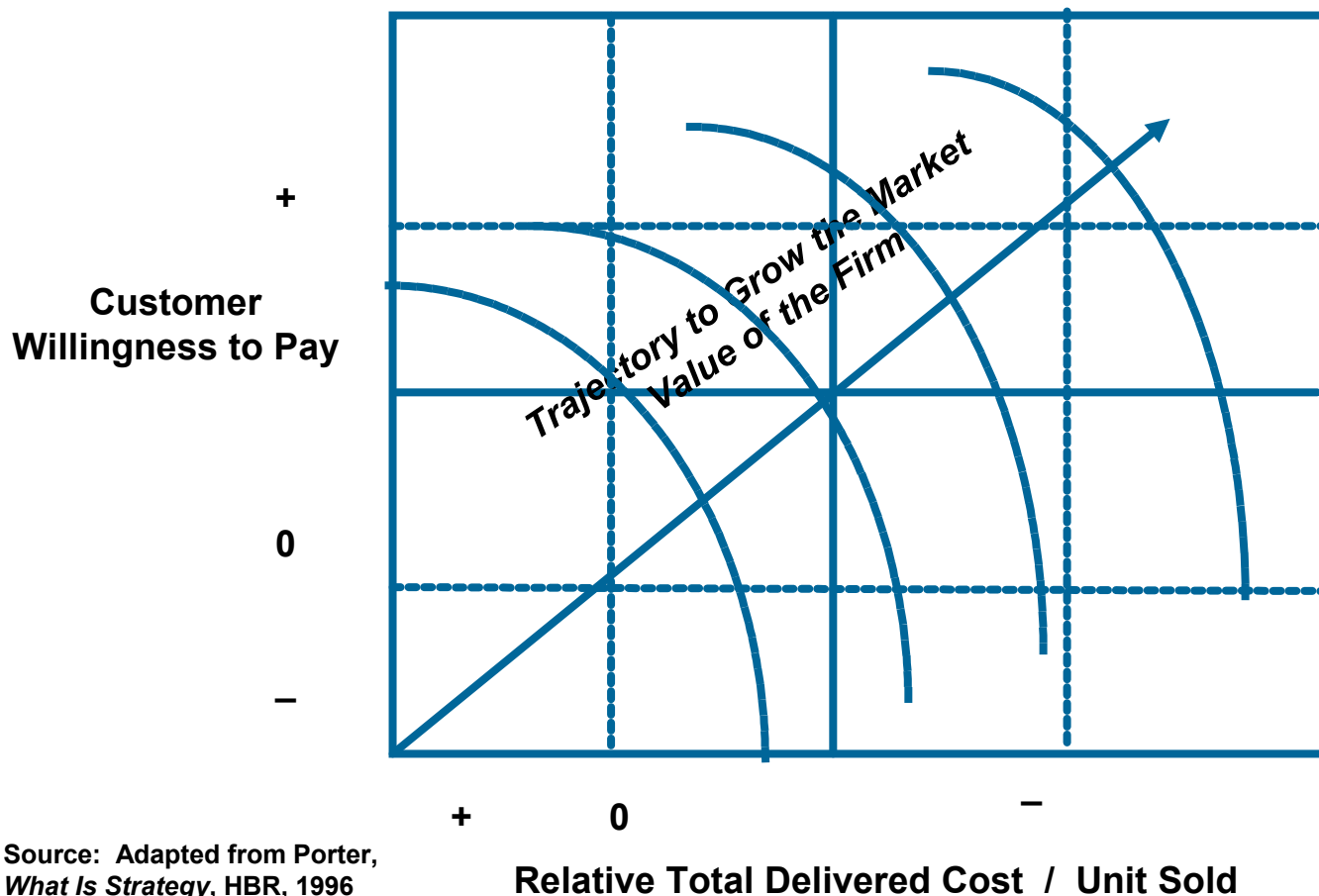






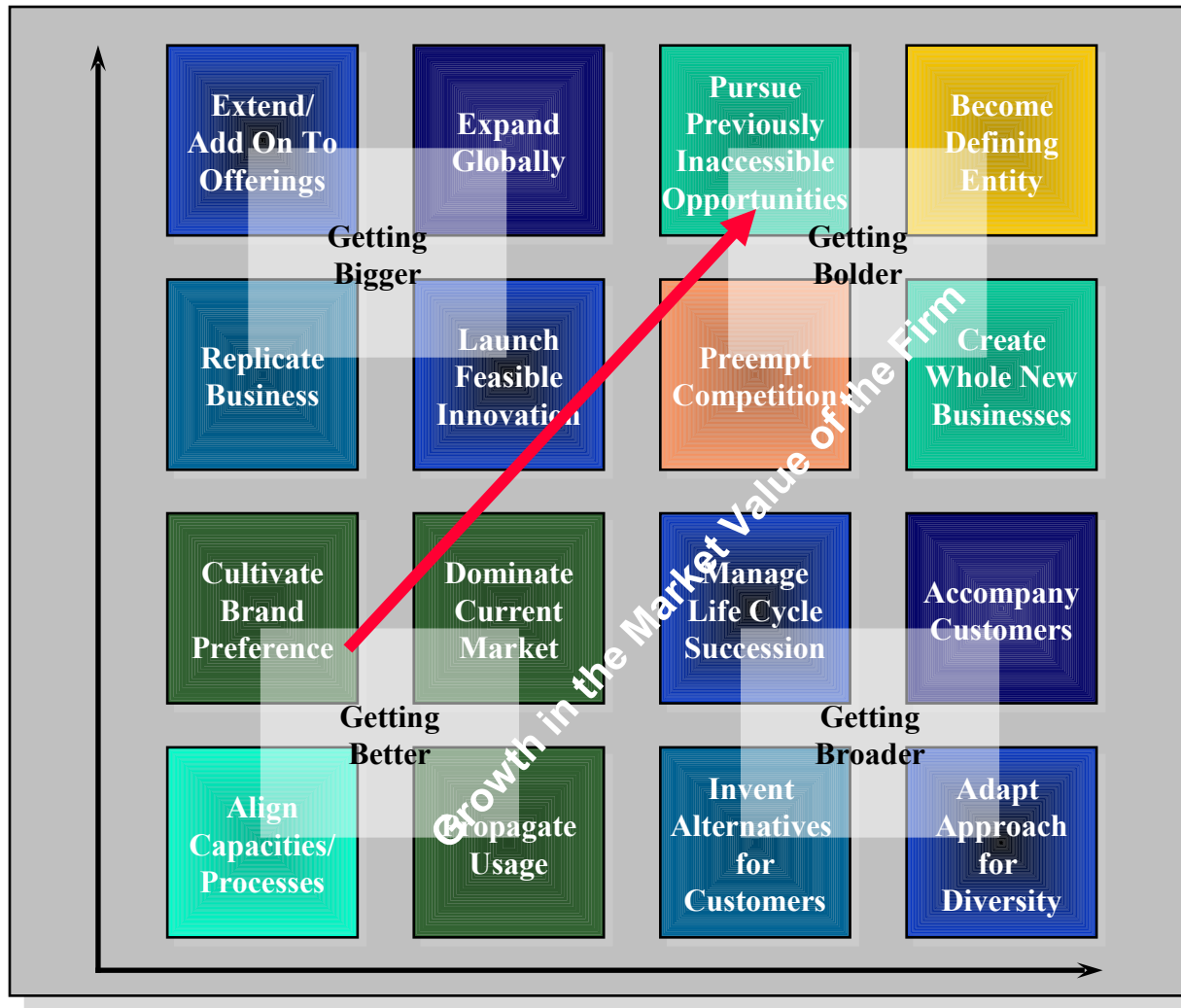
# The PPF Is Always Moving Forward: *How Fast Is Key for Strategy Effectiveness*

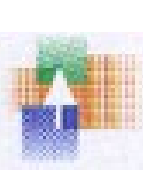
*The best the industry can be at any current time period can and will be made even better*



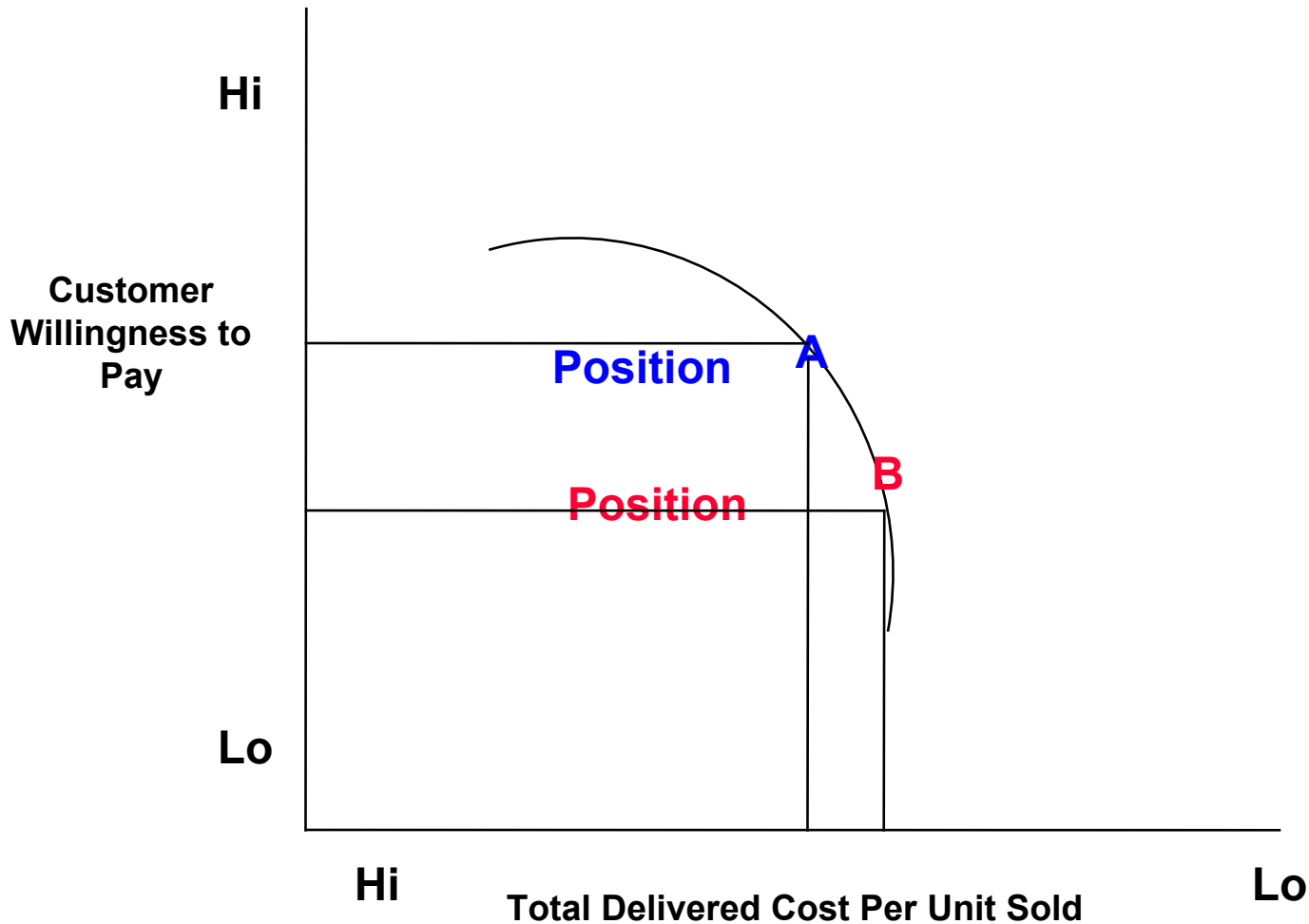
Source: Adapted from Porter, *What Is Strategy*, HBR, 1996

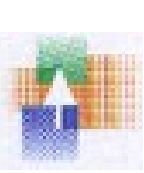
# The 4 B's: Practical View of the PPF





# BU Strategy at the Profit/Productivity Frontier: Several Tools Can Be Effective



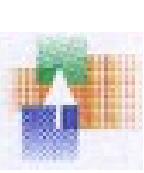


# Business Models

**A conceptual framework that describes how a company creates, delivers and extracts customer and shareholder value**

- **Who do we serve?**
- **What do we provide?**
- **How do we provide it?**
- **How do we make money?**
- **How do we differentiate and sustain an advantage?**

From Peter Skarzynski and Rowan Gibson, *Innovation to the Core: A Blueprint for Transforming the Way Your Company Innovates*, Harvard Business Press, 2008



# Customer Value Proposition: The Demand Side of Strategy

## Which Customers?

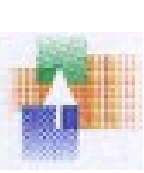
- End users?
- Channels?

## Which Needs?

- Products?
- Services?
- Features?

## What *Relative* Price?

- Premium?
- Discount?



# What Is a Business Model?

## Who do we serve?

Who are our customers?

What market segments do we serve, in which Geographies?

Who are the buyers of our products and services?

## What do we provide?

What are the products and services we sell?

What benefits and solutions do we deliver to our customers?

## How do we provide it?

What distribution channels do we use?

How is our value chain configured?

What are the core processes and activities that translate our competencies, assets, and other inputs into value for customers (outputs)?

Who are our partners?

How do our suppliers and partners help us deliver value?

## How do we make money?

What do we charge our customers for?

What are the major costs we incur in delivering our offering?

How do we extract value?

What is our pricing model? (e.g. flat rate vs.

subscription, own rate vs. customized, direct vs. indirect through 3<sup>rd</sup> parties, bundled vs. priced separately a la carte, set prices vs. market, etc

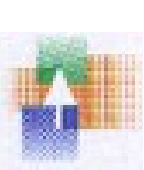
## How do we differentiate and sustain an advantage?

How are we different from our competitors?

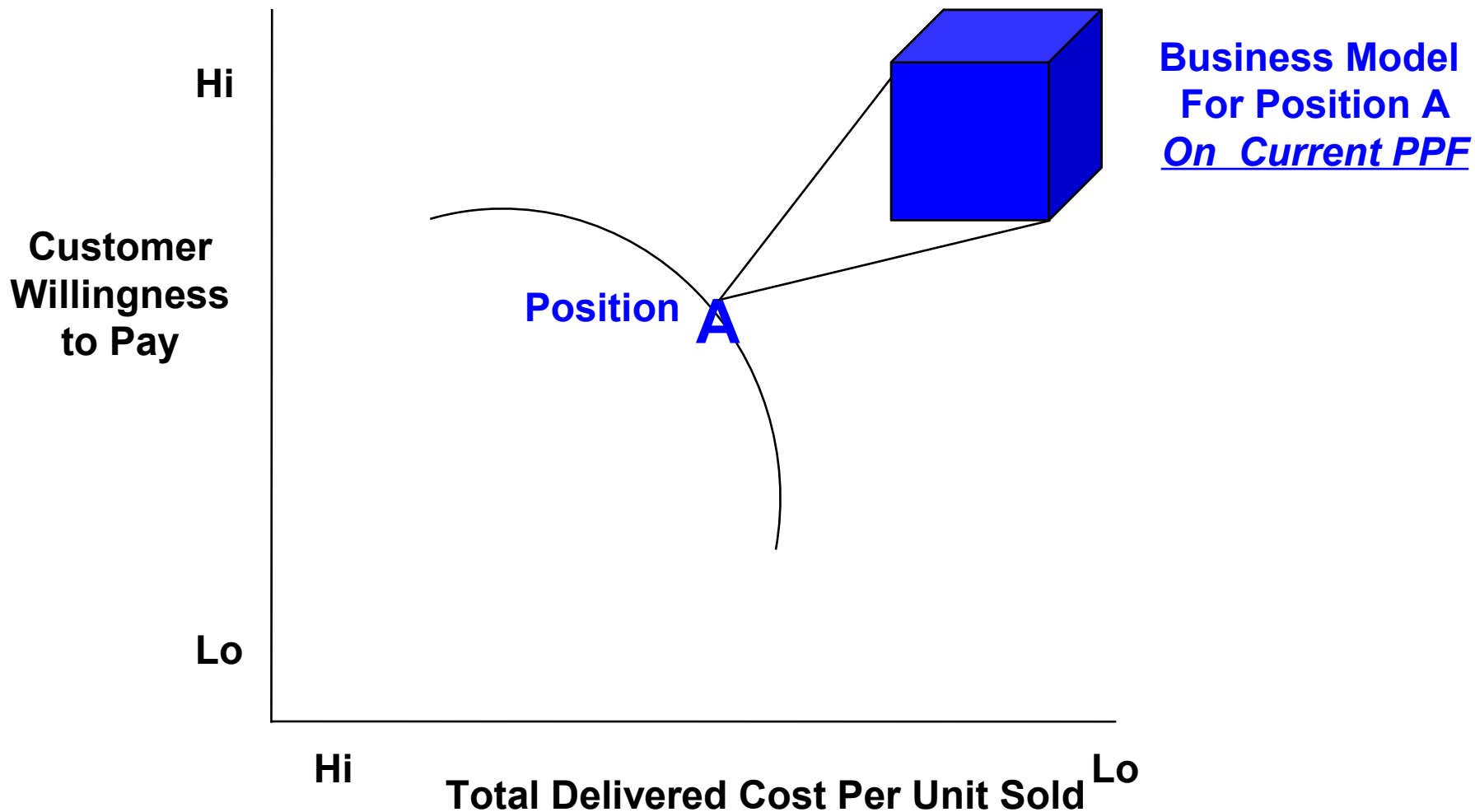
How do customers experience this difference?

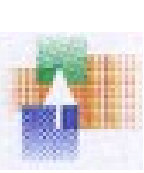
What differences do they value the most?

How sustainable is our differentiation? Is it protected by core competencies and strategic assets that we and only we have?

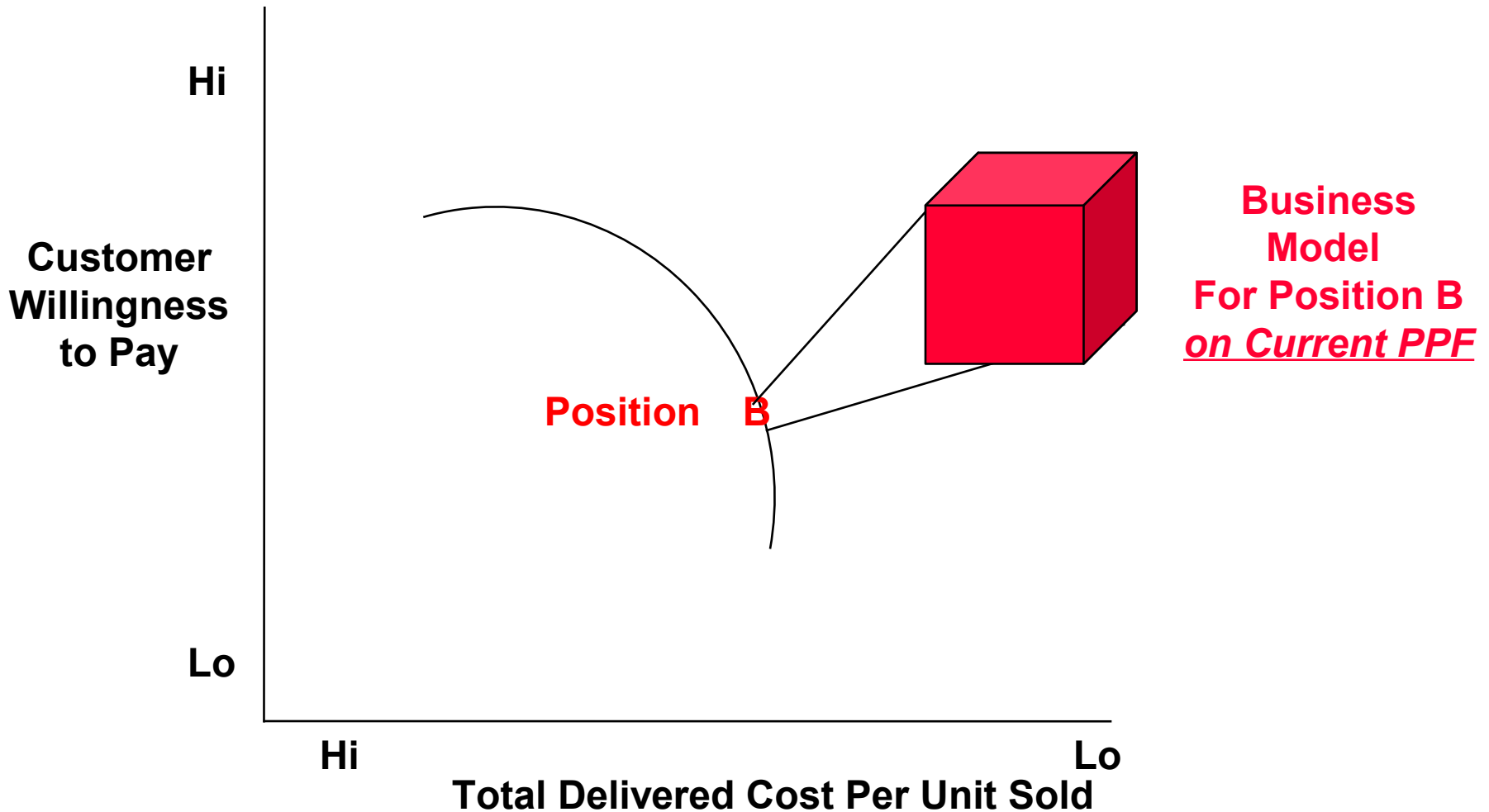


# How Business Strategy and the Business Model Relate

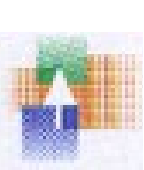




# How Business Strategy and the Business Model Relate





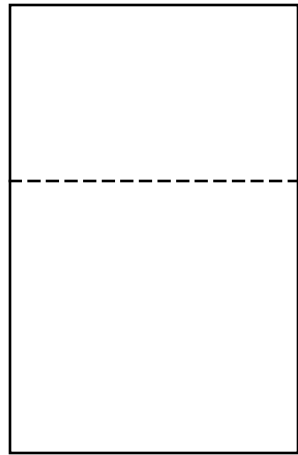


# The Position on the PPF Will Signal Whether the Firm is Vying for Low Cost Provider vs. Differentiator Sources of Competitive Advantage

## Low Cost Producer/Provider

Price

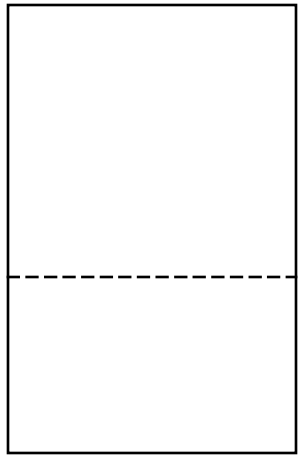
Total  
Delivered  
Cost/Unit  
Sold



**Industry  
Average**

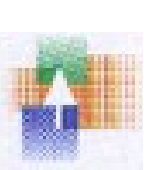
Price

Total  
Delivered  
Cost/Unit  
Sold



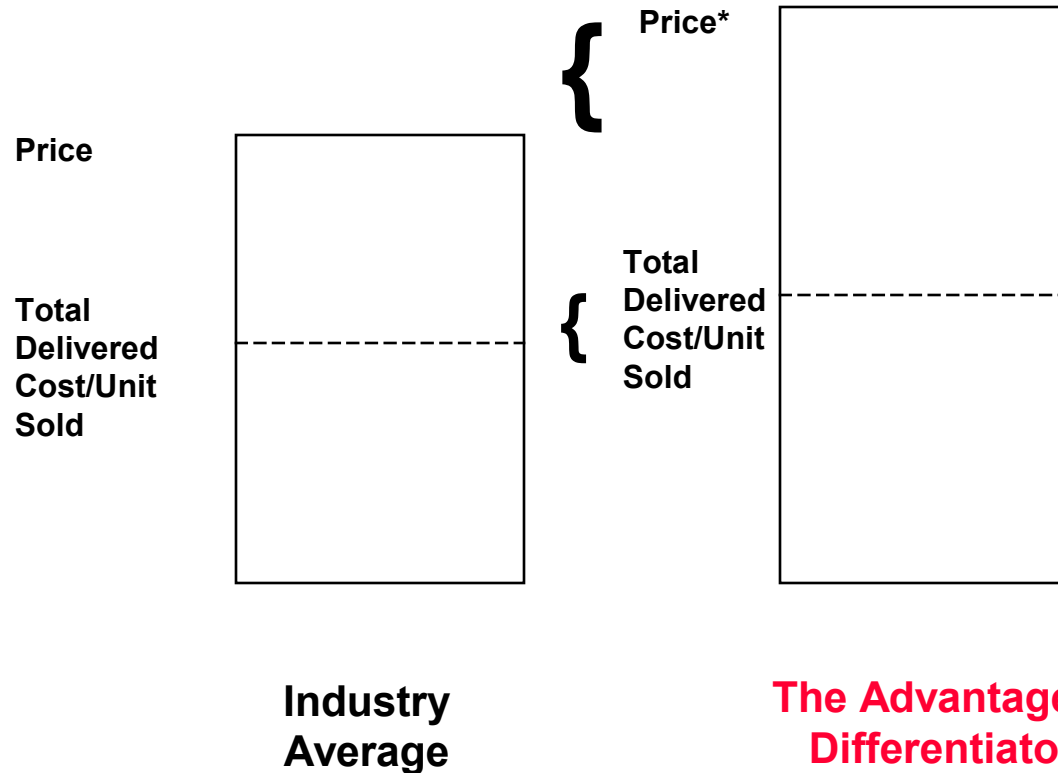
**The Advantaged  
Low Cost Provider**

Source: Adapted from Porter, *Competitive Strategy*, Chapter 1, 1980



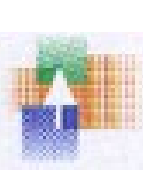
# Evidence of Competitive Advantage: Low Cost Provider vs. Differentiator

## Differentiator



\* Price differential is larger than cost differential

Source: Adapted from Porter, *Competitive Strategy*, Chapter 1, 1980



# The Supply Side: The Value Chain Describes the Flow of How Value is Created for Customers

*Value for the Customer Builds From Left to Right*



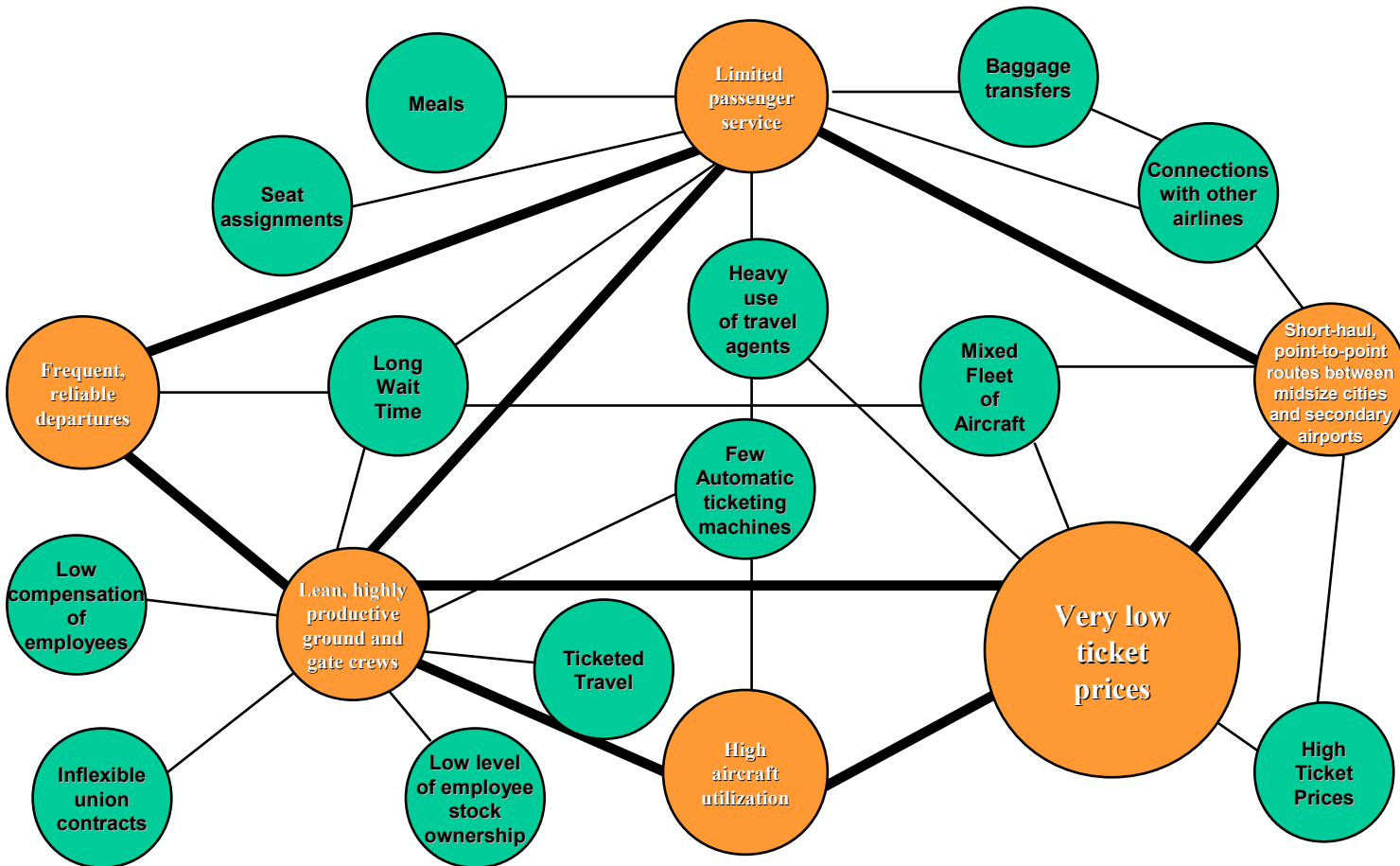
Firm Infrastructure				
Human Resource Technology				
Technology Development				
Procurement				
Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	After Sales Service
Materials Handling Warehousing Freight In Administrative	Processing Assembly Testing Packaging	Material Handling Warehousing Freight Out Administrative	Sales Force Advertising Promotion Administrative	Installation Training Maintenance Returns



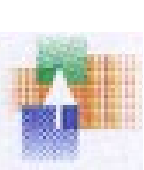
**The Value Chain Is The Raw Material for The Linked Activity Set**

Raw Materials Inventory Accounts Payable	Work-In-Process Inventory Accounts Payable	Finished Goods Inventory	Accounts Receivable	Parts Inventory Service Fee Receivable
Warehouses Transportation Fleet Equipment	Production Facilities Equipment	Warehouses Transportation Fleet Equipment	Distribution Facilities Salesmen's Cars Computers and Other Support Equipment	Service Facilities Transportation Fleet Service Equipment

# The Strategy and Business Model Are Made Difficult to Copy By Any Competitor Via a Linked Activity Set From the Value Chain

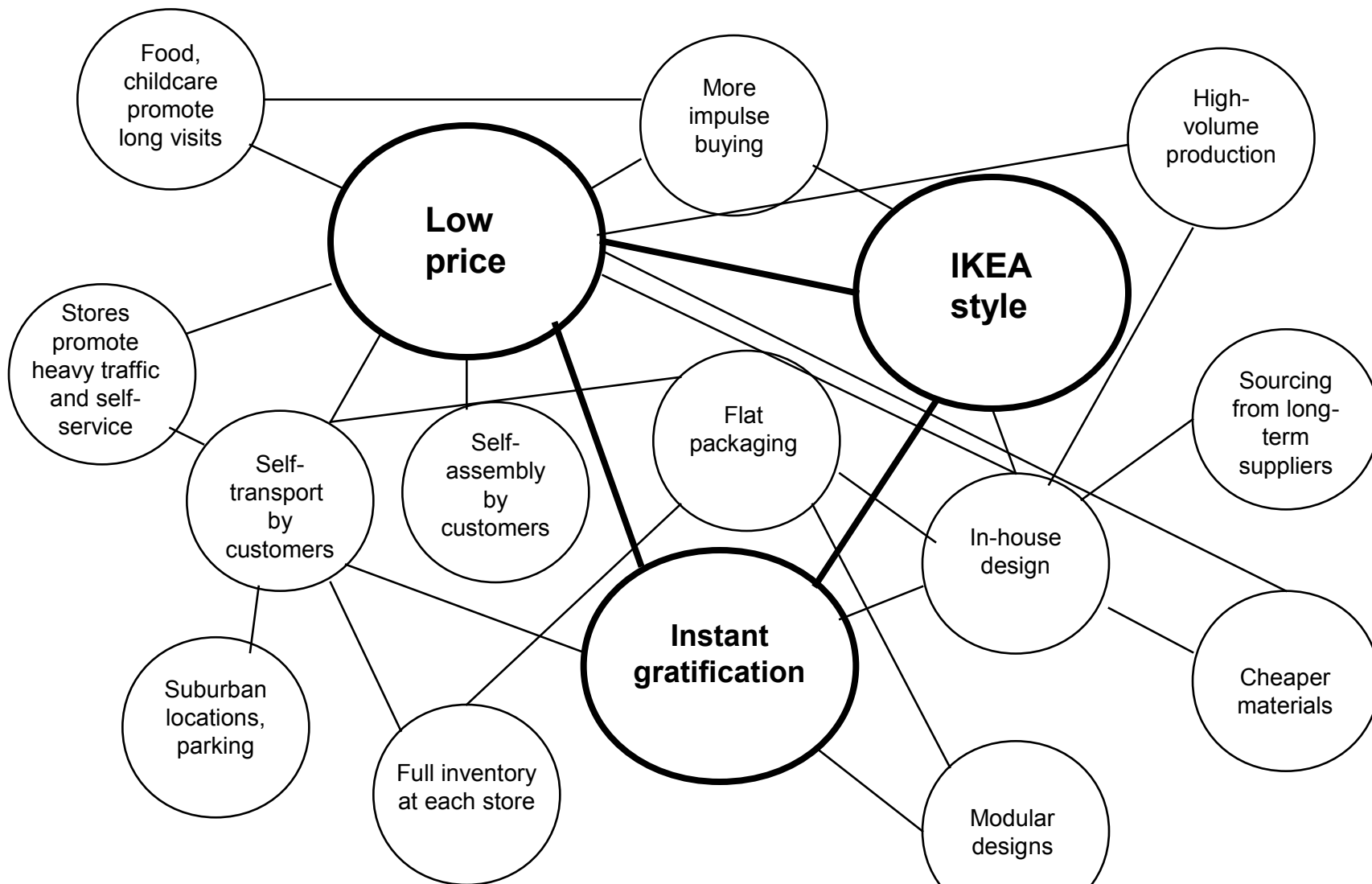


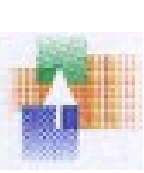
**Orange = Southwest Airlines**  
**Green = Rest of Industry**



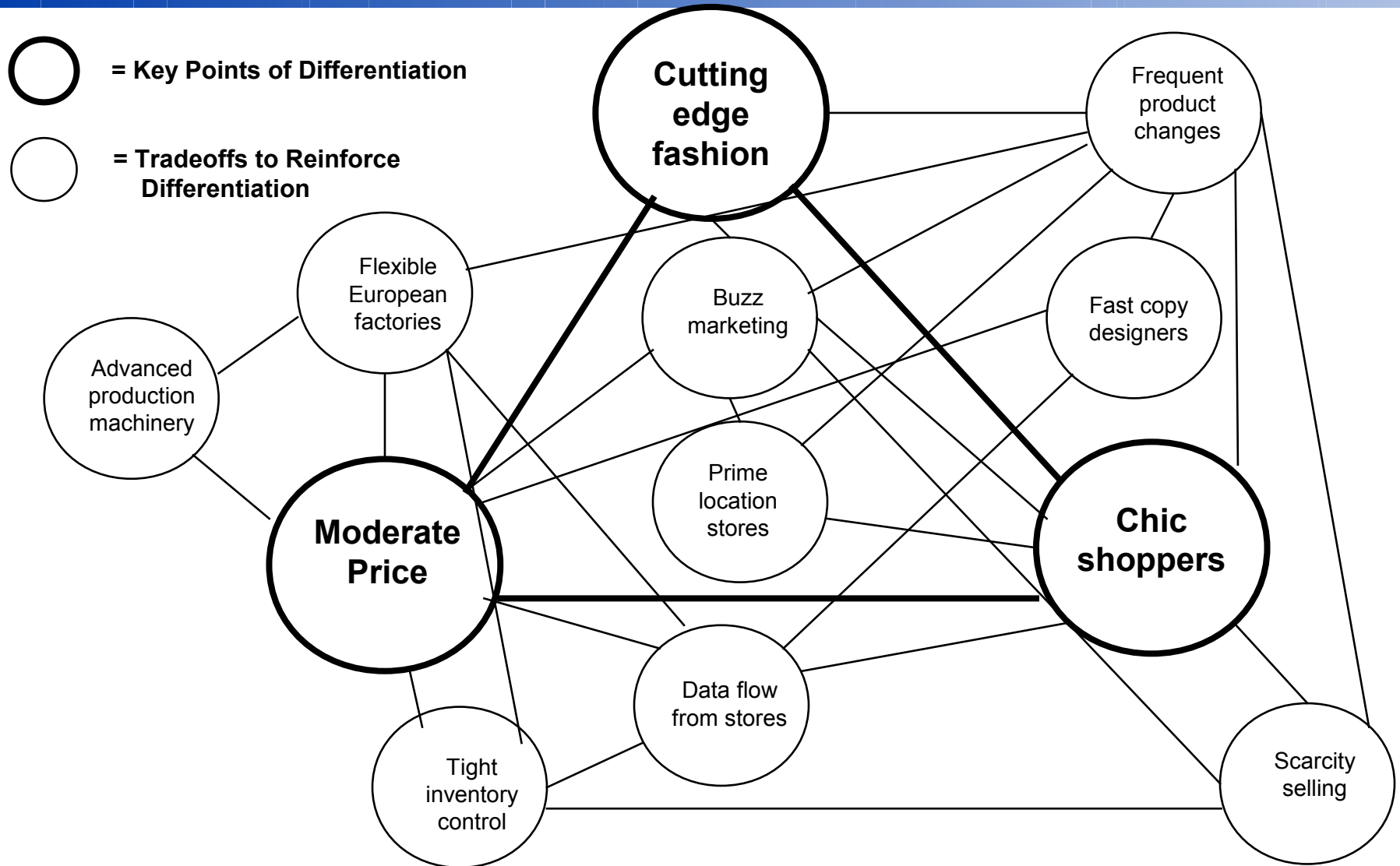
# IKEAs Linked and Reinforcing Activity Set

**○** = Key Points of Differentiation  
**○** = Tradeoffs to Reinforce Differentiation

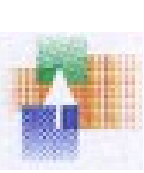




# Zara's Interconnected Choices For Speed in the Activity Set



Source: Joan Magretta, *Understanding Michael Porter: The Essential Guide to Competition and Strategy*, Harvard Business Review Press, 2012, p-79. Copyright 2013 William R. Bigler, Jr.



# Example: Each Value Proposition is Best Delivered By a Tailored Value Chain

**Hertz**

**Enterprise**

**Zipcar**

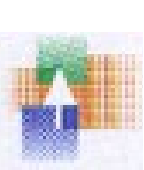
**Value Proposition**

<b>Customer/Need</b>	Travelers away from home, rent by the day	Replacement cars at home; rent by the day	Cars for non-owners at home; rent by the hour
<b>Pricing</b>	Premium, expense accounts or vacation travel	Economy: Insurance or self-pay	Varies by usage: subscription plus hourly fee

**Value Chain Choices**

<b>Office Locations</b>	Airports, hotels, train stations (\$\$\$)	Throughout metro area, strip malls (\$)	None (cents)
<b>Fleet Choices</b>	Full range of new models	“Sensible” cars, older fleet	“Cool” cars
<b>Marketing</b>	Consumer advertising (\$\$\$)	Market through body shops, insurers, (\$)	Word of mouth, partnerships with schools (cents)

Source: Joan Magretta, *Understanding Michael Porter: The Essential Guide to Competition and Strategy*, Harvard Business Review Press, 2012, p-114.

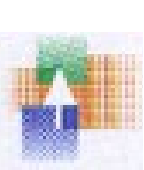


# Business Unit Strategy, Business Model, The Value Chain and Creating Free Cash Flow for Total Shareholder Return

**Different Activities Will Be More Important Depending if the Firm is a LCP or Differentiator**

Firm Infrastructure					$\text{Sales} = P \times Q$ <hr/> $- \text{ Operating Expenses}$ $\text{Operating Profit}$ $- \text{ Income Taxes} =$ $\text{Operating Profit After Taxes}$ Add: Depreciation and Other Non-cash Expenses  Less: Increase in Net Working Capital  Less: Increase in Fixed Capital  <hr/> Equals: Free Cash Flow from Operations
Human Resource Technology					
Technology Development					
Procurement					
Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Service	
Materials Handling Warehousing Freight In Administrative	Processing Assembly Testing Packaging	<b>Material Handling</b> Warehousing Freight Out Administrative	Sales Force Advertising Promotion Administrative	Installation Training Maintenance <b>Returns</b>	
Raw Materials Inventory Accounts Payable	Work-In-Process Inventory Accounts Payable	Finished Goods Inventory	Accounts Receivable	Parts Inventory Service Fee Receivable	
Warehouses <b>Transportation Fleet</b> Equipment	Production Facilities Equipment	<b>Warehouses</b> <b>Transportation Fleet</b> Equipment	<b>Distribution Facilities</b> Salesmen's Cars Computers and Other Support Equipment	<b>Service Facilities</b> Transportation Fleet Service Equipment	

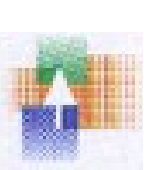




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Human Resource Technology					
Technology Development					
Procurement					
Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Service	



# The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results

## 3. Pushing the Industry's Profit and Productivity Frontier (PPF) Out Faster and Better Than Competitors (The Apple Story)

### Knowledge Required:

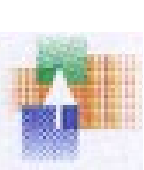
1. Strategy Formulation
2. Innovation in the Established Firm
3. Top Line Revenue Growth
4. Process Design, Management and Leveraging of Cross-Process Impacts
- 9. Change Management**
- 10. Corporate Level Strategy**
11. Major New Venture Startups
12. Shareholder Wealth Disciplines

### Key Competencies Required:

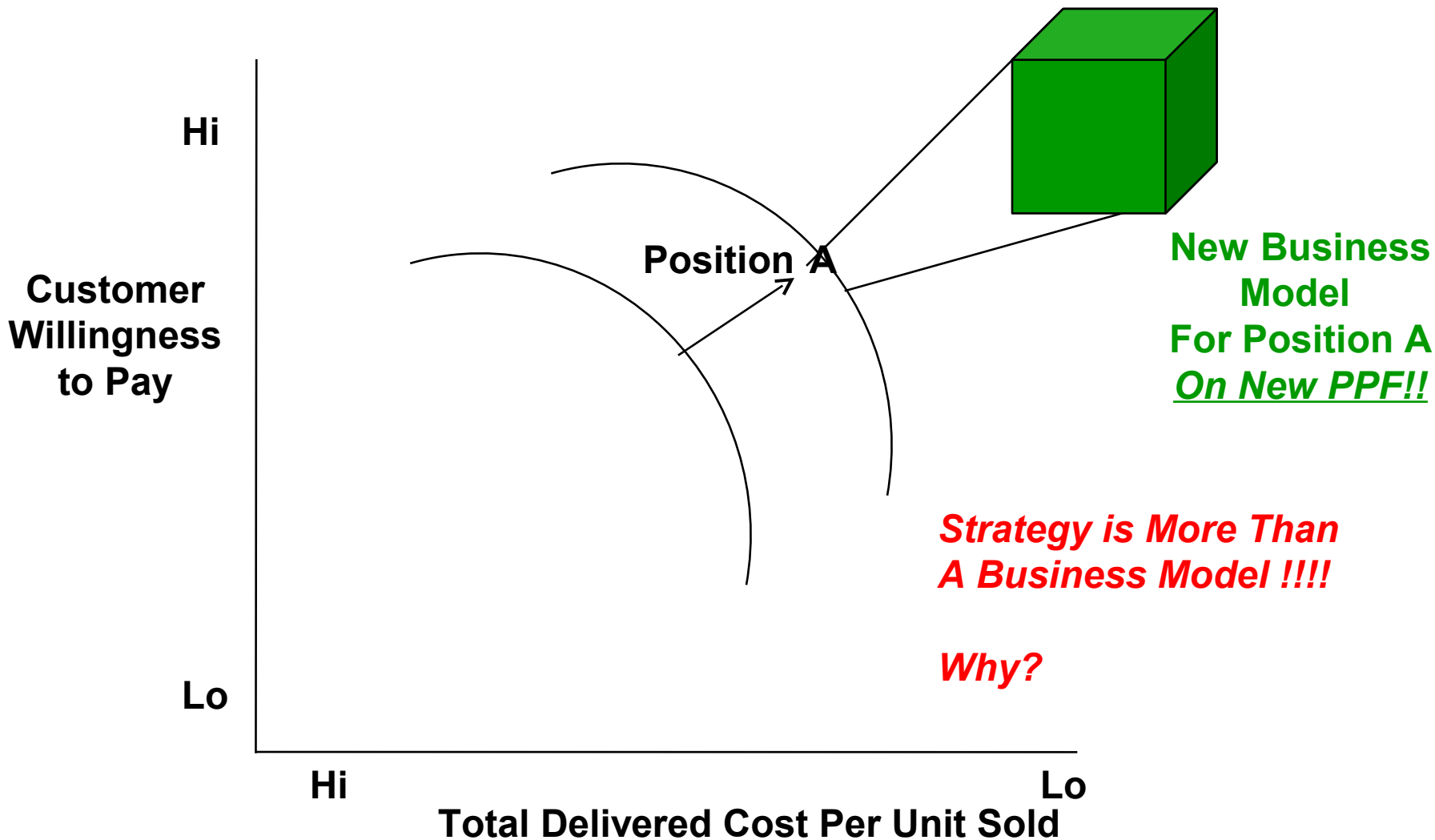
- 1. Dealing With Ambiguity and Change**
2. Intellectual Horsepower
3. Planning and Project Management
4. Creativity and Innovation Management
5. Managing Vision and Purpose
6. Conflict Management
9. Listening
11. Building Trust
14. Customer Focus
15. Organizational Agility
16. Strategic Agility

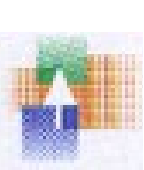
### Behaviors/Attitudes/Style Required:

4. Executive Presence
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



# Pushing the PPF Of the Industry Out is Difficult, but It is the Strategy “Hat Trick”

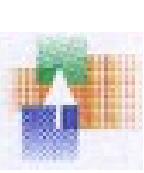




# Business Unit Strategy, Business Model, The Value Chain and Creating Free Cash Flow for Total Shareholder Return

Different Activities Will Be More Important Depending if the Firm is a LCP or Differentiator

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Technology Development					
Procurement					
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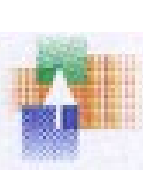
# The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results

## 4. Practice the Ongoing Leadership of the Strategy for Sustainability of the Strategy's Sources of Competitive Advantage

Knowledge Required:

Key Competencies Required:

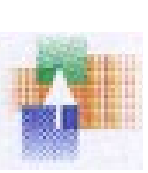
Behaviors/Attitudes/Style Required:



# Business Unit Strategy, Business Model, The Value Chain and Creating Free Cash Flow for Total Shareholder Return

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# The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results

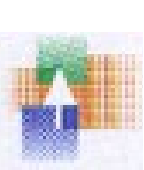
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## 5. Design, Manage and Lead the Strategic Planning Process of the Firm

Knowledge Required:

Key Competencies Required:

Behaviors/Attitudes/Style Required:

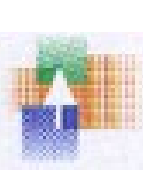


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Technology Development					
Procurement					
Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Service	





# The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results

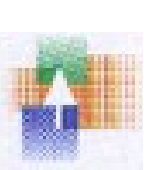
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## 6. Design, Manage and Lead the Communication of the Strategy Framework

Knowledge Required:

Key Competencies Required:

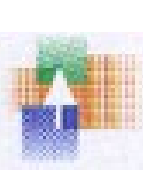
Behaviors/Attitudes/Style Required:



# Business Unit Strategy, Business Model, The Value Chain and Creating Free Cash Flow for Total Shareholder Return

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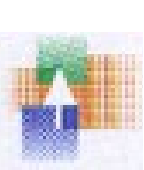
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## 7. Support World Class Strategy Execution and Build a “Confidence and Success” Platform

Knowledge Required:

Key Competencies Required:

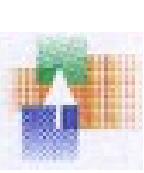
Behaviors/Attitudes/Style Required:



# Business Unit Strategy, Business Model, The Value Chain and Creating Free Cash Flow for Total Shareholder Return

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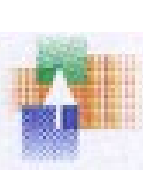
# The Successful Strategy Professional in the For-profit Firm: Contribution to Driving Business Results

## 8. Prove the Strategy Framework Will Achieve the “Win Metric”

Knowledge Required:

Key Competencies Required:

Behaviors/Attitudes/Style Required:



# Business Unit Strategy, Business Model, The Value Chain and Creating Free Cash Flow for Total Shareholder Return

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