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# SMME Clinic Masterclass

## WHAT MAKES A GOOD BUSINESS STRATEGY STATEMENT

**Mohamed Majapa**  
Business Growth Specialist

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**CAN YOU SUMMARIZE YOUR COMPANY'S STRATEGY in 35 words or less?**

**If so, would your team members put it the same way?**

**Uncomfortable Truth: Most business leaders cannot articulate the objective, scope, and advantage of their businesses in a simple statement.**

**“I try for months to get an initiative off the ground, and then it is shut down because ‘it doesn’t fit the strategy.’ Why didn’t anyone tell me that at the beginning?”**

**“I don’t know whether I should be pursuing this market opportunity. I get mixed signals from the powers that be.”**

**“Why are we bidding on this customer’s business again? We lost it last year, and I thought we agreed then not to waste our time chasing the contract!”**

**“Should I cut the price for this customer? I don’t know if we would be better off winning the deal at a lower price or just losing the business.”**

## **Three critical components of a good strategy statement –**

- > Objective**

- > Scope**

- > Advantage**

# OBJECTIVE

**Any strategy statement must begin with a definition of the ends that the strategy is designed to achieve.**

**The definition of the objective should include not only an end point but also a time frame for reaching it.**

**“A strategy to address Load shedding at some distant point in the future would be very different from a strategy to address load shedding within two years!”.**

# SCOPE

**It is also crucial to define the scope, or domain, of the business: the part of the landscape in which the company will operate. What are the boundaries beyond which it will not venture?**

**“If you are planning to enter the restaurant business, will you provide sit-down or quick service? A casual or an upscale atmosphere? What type of food will you offer, traditional or contemporary?”**

# ADVANTAGE

**You could go into business tomorrow with the goal of becoming the world's largest hamburger chain within 10 years. But will anyone invest in your company if you have not explained how you are going to reach your objective?**

**Your competitive advantage is the essence of your strategy: What your business will do differently from or better than others defines the all-important means by which you will achieve your stated objective.**



# ADVANTAGE

Advantage has complementary external and internal components:

- (A) Value proposition that explains why the targeted customer should buy your product above all the alternatives,
- (B) Description of how internal activities must be aligned so that only your company can deliver that value proposition.

## **TRADE-OFF**

**Defining the objective, scope, and advantage requires trade-offs, which is a fundamental to strategy.**

**If a company chooses to pursue growth or size, it must accept that profitability will take a back seat.**

**If it chooses to serve institutional clients, it may ignore retail customers.**

**If the value proposition is lower prices, the company will not be able to compete on, for example, high end fashion.**

**If the advantage comes from scale economies, the company will not be able to accommodate customer unique needs.**

**Such trade-offs are what distinguish individual companies strategically.**

## Defining Objective

Companies tend to confuse their statement of values or their mission with their strategic objective.

For example; principles such as respecting individual differences and sustaining the environment are not strategic. They govern how employees should behave (“doing things right”); they do not guide what the firm should do (“the right thing to do”).

The strategic objective should be specific, measurable, and time bound. It should also be a single goal. It is not sufficient to say, “We seek to grow profitably.” Which matters more – growth or profitability?

## Defining Scope

A firm's scope encompasses three dimensions: customer or offering, geographic location, and vertical integration. Clearly defined boundaries in those areas should make it obvious which activities they should concentrate on and, more important, which they should not do.

For clarity, the scope should specify where the firm or business will not go.

Be clear on who is your customer and who is not!

## **Defining Advantage**

**Advantage is the most critical aspect of a strategy statement.**

**Any strategy statement that cannot explain why customers should buy your product or service is doomed to failure.**

**The second part of the statement of advantage captures the unique activities or the complex combination of activities allowing that firm alone to deliver the customer value proposition.**

## Leaving No Room for Misinterpretation

Executives at Edward Jones have developed a detailed understanding of every element of the firm's strategy. Here is an example.

### Edward Jones's Strategy Statement

To grow to 17,000 financial advisers by 2012 by offering trusted and convenient face-to-face financial advice to **conservative individual investors who delegate their financial decisions**, through a national network of one-financial-adviser offices.

#### "conservative"

Our investment philosophy is long-term buy and hold. We do not sell penny stocks, commodities, or other high-risk instruments. As a result we do not serve day traders and see no need to offer online trading.

We charge commissions on trades because this is the cheapest way to buy stocks (compared with a wrap fee, which charges annually as a percentage of assets) when the average length of time the investor holds the stock or mutual fund is over 10 years.

#### "individual"

We do not advise institutions or companies.

We do not segment according to wealth, age, or other demographics. The company will serve all customers that fit its conservative investment philosophy. Brokers will call on any and every potential customer. Stories abound within Jones of millionaires who live in trailers – people all the other brokerages would never think of approaching.

#### "investors"

Our basic service is investment. We do not seek to offer services such as checking accounts for their own sake, but only as part of the management of a client's assets.

#### "who delegate their financial decisions"

We do not target self-directed do-it-yourselfers, who are comfortable making their own investment decisions. We are also unlikely to serve validators, who are merely looking for reassurance that their decisions are correct.

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## TASK:

Use the framework of an Objective, Scope and Advantage to develop your company's Strategy Statement in a short phrase



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# Thank You!



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