CHAPTER 6 - Creating the Strategy

Don't Forget…

- Creating value for its customers is the primary objective of any company
- Creating customer value results in healthy profit margins and cash flows…
- Leading to an increase in shareholder value

It's About…

- Looking at the current competitive context
- Regenerating and ensuring continued competitive fitness of the business
- Giving the next generation the opportunity to be entrepreneurs
- Improving the odds that the business will continue into future generations

Characteristics of Today's Economy

- Hyper competition
- Increasing "commoditization"
- Rapidly changing technology
- Rapidly changing supply chains
- Shorter product life cycles
- Need for new products/services
- Need for new growth opportunities
- Declining profit margins
- Declining or plateauing sales
- Next generation that doesn't want the responsibility of running the company or innovating

Michael Porter: *Competitive Strategy*

- Porter's work suggested that competitive intensity is a function of five forces:
    - The threat of new entrants
    - The bargaining power of buyers
    - The threat of substitute products
    - The bargaining power of suppliers
    - The rivalry that exists among existing firms as a result of the first four forces and the number and relative power of competitors, industry growth, high fixed costs, lack of differentiation or high switching costs and high barriers to exit

Basis of Competition: SWOT Analysis

Product Line: [Basis of Competition]				
Competitors	Market Share, %	Quality +/–/0	Ease of Use +/–/0	Speed +/–/0
A (Own firm)				
B (Other competitors)				
C				
D				
E				
F				
Total Market	100 percent			

This exhibit uses quality, ease of use, and delivery speed as examples of the basis of competition in the industry. Different firms would get a plus sign (+) if they competed favorably (were strong) on that basis relative to the other competitors, a (–) if they were weak on that basis relative to the competition, and a (0) if they were neutral, that is, if that factor did not represent a strength or a weakness relative to the competition.

Strategic Planning Requires…

- A new level of communication among family members, between the family and management, and between management and the board
- Ample financial and market information
- Building on the different perspectives and the predictable disagreements across generations

The Zero-Sum Family Dynamic and Strategic Planning

- A zero-sum dynamic exists within a family business when there is no business growth
- When the pie is not getting larger, family shareholders fight over size of their slices
- The zero-sum dynamic is a precursor to business failure and family disharmony
- Strategic planning, with its natural bias toward growth, serves a family-controlled company well because growth is the source of new jobs, increased wealth, developmental opportunities, influence, and greater family unity

Sources of Value

- Financial resources
- Physical assets
- The product and its price and performance
- Brand equity
- Organizational capabilities
- Customer–supplier integration
- The family-business relationship

Unique Business Model

- Sources of value combine to create a unique business model
- Rooted in the core competencies of the business
- Creates value for both the owners and customers

Financial Resource

- Financial resources of publicly traded companies are generally much greater than those of family-owned businesses
- Financial constraints are a barrier to the healthy growth of family businesses
- Financial resources are not likely to be a source of value for a unique business model

Physical Assets

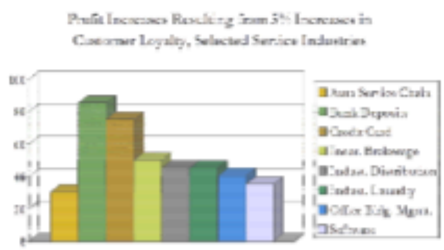
- Seldom major contributors to value creation
- Consider sales-to-physical-assets ratios
    - Microsoft
    - U.S. Steel
- Physical assets have a tremendous ability to become liabilities

The Product: Its Price and Performance

- The product itself—sometimes protected by patents—and its price and performance can be sources of value creation
- These sources of value are often associated with technology firms, but may also be created in low-tech environments
- Example:
    - Honey-Baked Hams

Brand Equity

- A well-known source of value for family-controlled companies
- Products or services have an edge over offerings of other firms even where the product is not inherently superior
- Examples:
    - Levi Strauss
    - Ralph Lauren
    - The *Washington Post*
    - Marriott
    - Bacardi
- **Canadian Companies:**
    - Roots
    - Lululemon
    - Molson



Organizational Capabilities

- In addition to values, unique organizational capabilities also include internal processes in administration or manufacturing
    - Processes that streamline the flow of information, resources, or parts within the firm
- Companies with unique organizational capabilities are capable of differentiating themselves and creating value in ways that others find difficult to replicate

Customer–Supplier Integration

- The traditional distribution system has changed dramatically, and so have relationships and the relative power of firms across the entire value-added chain
- Firms most continually ask themselves: To what extent do we need to deploy a digital strategy that will enhance our relationship with suppliers, customers, and our customers' customers?
- It is certain that the Internet and its applications have eroded, and will continue to erode, some of the values of traditional approaches

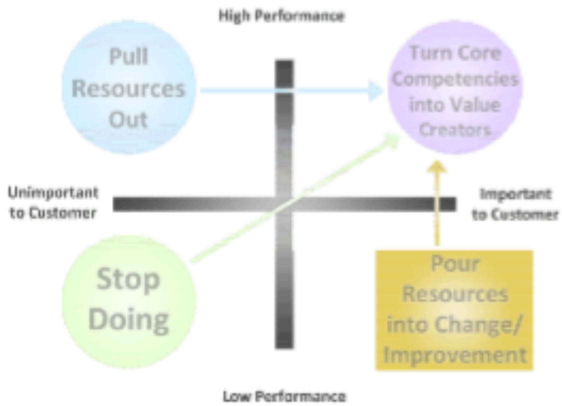
The Nature of the Family-Business Relationship

- The nature of the interaction between the business and the family can be a source of value
- The more unified the family, the more effective are management and governance
- Meetings, retreats, and councils foster family unity and pay off for the family business
- Steps taken to promote family unity make strategic planning processes more likely

The Customer-Oriented Company

- Being successful requires providing customers with the service or product they want in any form, at any time, and in any place
- Relies heavily on unique organizational capabilities and core competencies that have translated into competitive advantage
- What matters to customer-oriented companies is the outcome from the perspective of the customer who is using their product or service
- Strategic planning is required from generation to generation because customer needs are constantly changing

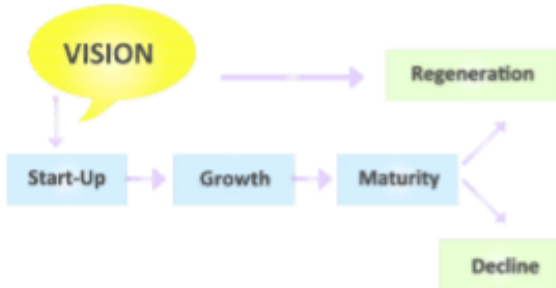
Turning Core Competencies into Competitive Advantages



Strategic Planning and Disciplined Execution

- Strategy making is guided by the owner's vision for the future and a legacy derived from the firm's competencies, both of which insulate the process from chaos and loss of control
- Crafting a strategy from the accumulated wisdom of the current generation of owners and managers, the dreams and aspirations of the next generation, and the timeless wisdom of loyalty to one's customers leads to innovation and healthy growth for the business across generations
- Family-controlled companies must emphasize preparedness in their strategic planning—or be prepared to fail

Stages of Business Development



Inherent Competitive Advantages

- Rapid speed to market
- Flexibility and nimbleness in response to customers and competitors
- Strategic focus on proprietary products and specialty niches that afford more protected profits
- Concentrated ownership structure provides more patient capital and commitment to the long term
- Lower total costs derived from reduced agency costs
- High quality of product and/or service that builds brand equity, reputation, and higher profitability
- Capacity for customization

Growth of Canadian Family Businesses

- In a recent survey, 66% of Canadian respondents experienced modest to significant growth in demand for their products and services compared to their counterparts in other mature global markets with 45%
- 31% of Canadian family businesses increased their spending over the last 12 months
- 67% stated they have access to surplus cash flow
- 97% reported being somewhat or very competitive in their markets