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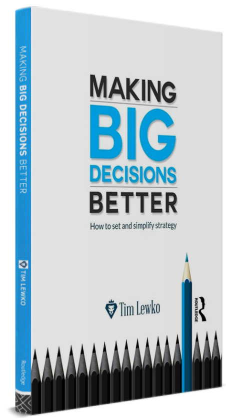
# Making Big Decisions Better

## How to Set and Simplify Business Strategy

by **Tim Lewko**

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## THE SUMMARY IN BRIEF

With the escalating speed of change, short attention spans, wide range of stated and unstated stakeholder needs, and the insatiable urge to react rather than thoughtfully respond, we must equip ourselves and our organizations with practical strategy tools that enable ownership, promote more visual decision making, and get back to the basics of finding root cause in performance gaps.

In ***Making Big Decisions Better***, you'll discover how companies that are successful and deliver enduring profits in the marketplace have something in common. The executives and managers that lead these companies use a set of tools—the TDG System—a transportable toolkit that equips them to think, develop, and execute strategy better, more simply and devoid of consulting jargon. Strategy needs to be reintroduced as tools for decision making that create agility, are not event-driven and draw in profound competitive insights from the organization to serve its customers better, relative to the competition.

For those companies that choose this path, ***Making Big Decisions Better*** shows how to FIX, BUILD and USE a proven system of tools to deliver more predictable and enduring profitability.

## IN THIS SUMMARY, YOU WILL LEARN:

- 4 ways to immediately fix and create a more powerful strategy.
- 3 powerful tools great leaders use to develop strategy and make tough choices.
- 3 must-have areas for setting sound strategic goals.
- 7 criteria to pressure-test the strength of any strategy.

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## Introduction

The most important role a CEO owns is setting and executing strategy. Strategy can be made to be simple, practical, and most importantly dynamic. Most successful CEOs know that Strategy can no longer be static. The strategy system in my book shows how you can quickly use the powerful system to Fix, Build, and Use your strategy. This will equip you to think about, develop, and execute strategy better and more simply.

# FIX Your Strategy

### 1. You Must Define What Strategy Means

Defining strategy for your company removes the unseen communication gaps and disconnects that undermine your organization's focus and effectiveness when dealing with issues.

Defining it creates focus. Not defining strategy creates chaos. Only you have power to make the simple change in your company or area you lead.

Strategy can be defined as a framework of choices that defines the purpose and path of the organization. This definition returns everyone back to the simplicity of strategy. Namely, it means making decisions with data about what products to offer, what markets to serve, and what capabilities to build—through the eyes of the customer and relative to competition. A successful strategy delivers superior profitability or return on invested capital relative to your rivals.

### 2. Strategy is a Decision-Making Process not an Event

If your company has no common, replicable and visible process for strategy, it handcuffs profit-generating potential.

Seasoned executives all have strategy processes in their toolkits to move their company forward — faster, with more alignment and with greater results. If your company does not have a process, take these actions to remove this Gap:

- Check to see if you have a common, transportable process for setting and testing strategy – if not …
- Develop or adopt one that integrates these 4 dimensions: Appraise, Decide, Plan, Adjust
- Ensure your process is tied to the fiscal calendar and cadence of your company and is used to assess performance and make mid-course corrections.

### 3. Don't By-Pass Sweat Equity

The executives, managers and employees you work with know more about the company's issues than any outsider. Targeted expertise, and objective feedback are always welcome, but if you want to set and really implement a strategy to achieve results, you must use those people who understand the nuances and can sweat collectively through the decisions. They will then author and own the outcomes.

The CEO take-away is: Create a strategy with your own executives and people. Don't outsource it.

### 4. Ensure the Revenue – Cost = Profit equation is clearly understood

Profit is good. It's the absolute hard-dollar output. Profitability is better. It's the return on resources that creates those hard dollars. Profitability keeps businesses sustainable and enables companies to reinvest or distribute wealth to owners.

Too many times, data used to drive decisions is only known at the Gross Margin level, which is not granular enough to make Product by Market decisions. This Gross Margin approach must be avoided as it skews where and how money is actually being made. Looking at consolidated or "rolled up" numbers is a sure way to miss what is really happening.

Further complicating this is a common belief that all your people know the workings of a P&L. Profit is an outcome of Revenue (Sales) minus Cost, these dimensions need to be taught or reskilled in organizations.

Legacy in operational roles and general lack of P&L experience have built a profit blindside into decision making and actions of many executives and employees. This gap needs to be fixed in many organizations.

# BUILD Your Strategy

The TDG strategy system enables CEOs (and really anyone with a P&L) to have three one-page tools to set strategy, make better decisions, adjust for course corrections and apportion scarce resources to areas that have the greatest impact on their companies.

**1. Strategic Assumptions and Implications — the Future:** CEOs need to identify the 5 to 8 forces and factors they believe will unfold, quantify them, and draw out the parallel internal choices — product, market and capabilities — that will mitigate and/or exploit those forces. This connects Outside to Inside and helps avoid internal biases.

**2. The Product Market Capability (PMC) Engine – the Decision Hub:** This single-page economic decision-making tool visibly shows your product, market, and capability choices (your strategy) and the rationale behind their relative priority or emphasis, i.e. where you are placing your bets and allocating scarce resources.

The PMC Engine illustrates where you choose to play and profit based on external and internal forces and defines your path for growth—by products or markets. It becomes real because it contains the Revenue, Profit and Volume for each Product/Market Cell in a SHOULD versus ACTUAL performance reporting format that equates to your budget.

**3. Goals and Gaps –– the Reality Check to Monitor and Make Changes:** A company should have no more than three above-all-else goals to focus their resources. Goals have three practical aims in strategy: to force focus, enable accountability, and facilitate finding the cause of positive and negative performance gaps.

Goals with clear metrics, targets, and data source underpin the strategic aim of your company for one calendar year. Everyone in the company concentrates on and connects with these — above all else. They reinforce the competency and requirement of truly finding cause for over- or underperformance.

With these three one-pagers, you can manage, monitor and make critical decisions and more importantly always ask the vital questions to understand why your business is delivering the results it is. These tools connect the external environment to your internal choices, and specifically the goals that define success.

The reality of any company is that financial performance is the sum-total of daily decisions made by each of person. The quality and consistency of those decisions represent 100% of its EBITDA potential. (EBITDA is Earnings Before Interest, Tax, Depreciation and Amortization.)

These three one-page tools will equip your C-Suite and executive team with a common and quantified decision-making hub to enhance strategic thinking and decision-making competencies to gain your right share of profit.

### Where Do Good Strategic Goals Come From?

Strategic Goals mirror and define the very definition of strategy. As companies work through the two pillars of setting strategy — defining their strategic assumptions and building a PMC Engine that explains their products to offer, markets to serve, capabilities to build, path for growth — they see the future benchmarks emerge that represent what they must become. Good, sound and practical strategic goals follow these categories:

**Emphasis on Profit:** Operating Income, Free Cash Flow, or EBITDA metrics for profit are good starting points. The emphasis on profit ties to the belief that if you are not making money that can be reinvested and/or distributed to shareholders, why are you in business? Strategic goals can also include a Revenue target as everyone can relate to it and recognize that Revenue minus Cost gets back to profit.

**Product or Market:** There really are two fundamental paths for growth — sell more products or sell to more markets. Depending on the path your company selects, you will have one strategic goal that represents your aim for growth. Here the metrics may be revenue, new product introductions, or new customer deals acquired for example.

**Key Capabilities** is the other category for which you need a strategic goal. Key capabilities are those competencies, skills and processes that drive competitive advantage or will drive advantage for your business in the future. To keep your premium or low-cost position relative to the competition, you need competencies to emerge that most likely support the Product or Market path for growth and deliver the Profit. Key capabilities are the lynch pin for investing in the business that support the other two goals.

In over 17 plus years of working and facilitating strategies for TDG clients, Profit, Product or Markets, and Key Capabilities always emerged as the three natural choices that made sense and provided meaningful focus for the company and its employees.

This simple rationale for setting strategic goals relieved many CEO's and leadership teams because it built in checkpoints that ensured elements in their strategy fit together from top to bottom.

## USE Your Strategy

### 1. Test Your Strategy Against 7 Criteria

Business environments are dynamic and will continue to be. No Strategy ever devised is 100% correct. However, to give your firm a higher batting average in delivering on your strategy, you need to test it systematically when it's being developed and check on it quarterly as progress is made. Any CEO or business leader—no matter what formula or process they use to develop their next strategic path—

should evaluate their strategy against the following seven critical criteria and questions.

**Confidence in Data:** What level of confidence do we have in our data?

**Board Approval:** Will this new strategy gain board approval?

**Industry Dynamics:** Does your strategy have 5 to 8 external assumptions that drive quantified internal decision making and investments?

**Cultural Shift:** Does your strategy back-cast against the culture of the organization to determine if it can make the leap?

**Strategic Fit:** Does your strategy clearly outline common criteria to set relative priority on which products to offer(or not offer); which markets/customers to serve (or not serve) and which investments in new capabilities will drive superior and sustainable profitability?

**Financial Impact:** Are your goals Strategic? Do they follow the SMART (**S**trategic: contains PMC dimensions, **M**inimal: no more than three, **A**vailable: understood by all, **R**eal: no stretch goals, **T**ied to profit) dimensions?

**Overall Risk (Probability X Impact=Risk):** Are we willing to accept the overall probability of success and the resulting impact of this new path?

### 2. Reinstate Root Cause

In many organizations at best they ask Why for negative variances but overlook asking Why for the positive variances. These companies are only looking at 50% of what's in their wheelhouse to improve performance. And much of the root-cause thinking or tools at the executive level are either dusty or dismal—in terms of a systematic and common tool for finding cause. So what should we do about this?

We need to reinstate root cause. Establish an executive team routine to look at both positive and negative variances and apply a common process for finding cause. Getting better at finding the cause of negative and positive variations in your strategic performance gives the benefits of speed, it's proactive, uncovers more profit, it's data-driven and simpler.

At the end of the day, the strategy system and tools make the performance of your business visible so you can manage the positive and negative deviations and take action.

### 3. Check in Quarterly: Use it or Lose it

Quarterly reviews are critical to exposing issues that impede or exploit strategic progress against your three strategic goals. If your quarterly review sessions have turned into static presentations—now is the time to change that. To equip your firm to proactively *respond* to external and internal issues (rather than *react* to them) you should be able to clearly answer these questions:

- How much time do you spend quarterly using and testing your strategy to make mid-course corrections?
- Do you have a set quarterly meeting format to drive strategy meetings?
- Is there a mechanism you have to collect and move strategic issues up to the leadership table?
- Can your executive team distinguish between strategic vs. operational issues?
- How do you build Market and Competitive intelligence into your strategy process or cycle?

The best performing companies and most compelling CEOs can answer these questions and have built a smart review system to check their strategies.

In the end, the sum total of daily decisions made by your people determines the fate of your organization.

Tim Lewko is the CEO of Thinking Dimensions, a best-selling author, and leader of a global movement to simplify strategy for executives through better decision making.

He has worked with thousands of executives in 4 continents over the last 20 years to simplify strategy and ensure that companies deliver better financial performance through better decision making. His clients include Private Equity Portfolio, NYSE, NASDAQ and Family Offices. His clients to date have achieved over $1 billion USD in improved EBITDA performance through his advisement and the tools presented in this book.

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