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THE BUSINESS NEWSLETTER FROM AUSWILD & CO
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DOES YOUR BUSINESS NEED A CORPORATE STRATEGY?

Many owners and managers of small and medium sized businesses believe that developing a corporate strategy is an activity performed by, and only relevant to, large multi-national businesses or government agencies. The classic responses when strategy is raised are "why do we need a strategy? Or "we are busy running a business, we don't have time to develop a strategy." Ironically, it is the same people who are typically running businesses that are struggling to compete against competitors, fighting to maintain market share, or simply not meeting their goals. Strategy is just as important to small and medium sized businesses as it is to big businesses in these changing times where all businesses have no choice but to adapt to survive.

But what is a strategy?

Simply put, a strategy is about setting the long-term direction of a business, based on a deliberate set of choices. The ultimate purpose of strategy development is for a business to articulate where to play, and how to win.

Think of a corporate strategy as the destination which your business wants to move towards. So, for example, if your business has reached market saturation and you need to diversify to survive, your strategy would be to identify and operate in new markets. That becomes the guiding force for everything your business does from now on.

So how will a strategy help my business?

The development of a good strategy forces people, including the owners or managers to develop a deep understanding of their business, to make tough decisions regarding how they will compete, and it shows them where they stand in the context of their broader operating environment. In short, a strategy can accelerate growth, increase profits, reduce costs, eradicate counterproductive resources, and effectively distribute valuable resources.

The development of a strategy helps articulate success for your business and illustrates what you are seeking to achieve. Incidentally, this is great for building employee engagement (which is another topic).

How do I begin to develop a strategy?

It is not possible for a business to begin an informed strategy discussion without understanding their business model. Businesses need to clarify their fundamental business drivers such as: key partners, key activities, key resources, value proposition, customer relationships, customer channels, customer segments, cost structures and revenue streams. By discussing these in detail it forces managers and business owners to think very deeply about their business, and specifically how they will compete against their competitors.

For instance, are you competing on price, superior customer service, or offering a unique product? Clearly there are trade-off decisions that must be made which are fundamental to how any business operates. For example, it is very challenging to offer superior customer experience, yet also be the cheapest. If you are focusing on superior customer service, is relying on online and remote channels to engage your customers the best bet, or is this segment looking for something more? Once decisions around key components of the business model have been made, businesses can then begin to understand their competitive threat position in the context of their operating environment. For example, do customers have alternatives to you? If so, why will your customers choose you? What are you doing to stop them switching to a competitor? However, if your customers do not have an alternative, these factors will be less of a consideration. Instead, you will focus on how to defend your current position and maximise the opportunity you have.

What might stop us developing a good strategy?

Near-sightedness, or myopia, is the inability to see distant objects due to an unflinching focus on whatever is right in front of the eye.

Myopic managers may focus on the product rather than the customer and what they might want. They stress near sighted goals over longer term visions or projects, and (mis)allocate resources in doing so. In being more oriented to the short term than the long term, they create an internal culture typically characterised by silos and ultimately led by management with a more self-serving approach to leadership than one that has a long-term vision or strategy. They focus on immediate rewards rather than lead their teams towards a shared and common goal.

The point is that strategy and strategy development is about more than simply setting a target and a developing a nice strategy document. It is about gaining a deep understanding of your business within the context of its operating environment. As mentioned at the outset, ultimately strategy is about where to play and how to win. Given that most small and medium sized business are operating in a highly competitive environment, understanding your business has never been more important than it is now, during these challenging and changing times. While focusing on operational issues may keep you in business today, focusing on strategy will keep you in business tomorrow. History shows there are many businesses that got this balance wrong and paid the ultimate price.

*This month's newsletter was written by **Auswild** team member, James Hamilton.*