

A person is rappelling down a rock face. The person is wearing a dark shirt and pants, and has a harness and ropes. The background shows a vast mountain valley with a river and a lake. The text "Day 2" is overlaid on the top left of the image.

Day 2

Developing a Strategy

*Mapping the way to
your dreams*

Business ideas come from many sources. Examples include:

- other people
- “holes” in the market
- discoveries or inventions
- personal needs
- lucky circumstances
- customers
- a great vision
- other sources

What was the source of your idea? Regardless of the source, you need a strategy to be successful. A strategy is simply the game plan for your business; it represents how and why you are going to win. Compare a business strategy to a strategy to win a game. To win, the coaches draft a strategy. For example, they

- calculate the number of players who will be involved (the team),

- identify the equipment they will need (the resources), and

- assign the players and equipment for distinct roles— offense, defense, special teams, etc. (the strategy).

In addition, the coaches may plan to use the element of surprise to overcome their opponents’ strategy. Of course, many more details must support this plan. However, a short statement of the strategy tells you exactly how and why the team will win. Because you are entering a complex game, you need a strategy just as concise for your company. It is a game that most people lose.

It is essential to have a well-drafted strategy for building even the smallest organization. If you dream of growing a company to any decent size, you will strategize about all aspects of the business. If you don’t, you probably will not grow. While I have grown companies with half a strategy and by figuring out the missing pieces on the run, it is not the right thing to do. It adds unneeded danger to an already dangerous endeavor. It caused me to lose my first company. I simply did not want to write down, and model, the possible implications of growth. (I then compounded that failure by also ignoring my accountant.) We grew explosively, before blowing up in year four. That may sound pretty cut-and-dry but, when I failed to create and follow a detailed strategy, almost 100 people lost their jobs and I spent years fighting lawsuits. That reality taught me this lesson in a profound way.

Many entrepreneurs purposely avoid taking the time to really strategize. I think they do it because they don’t want to confront bad news. Entrepreneurs don’t want to believe there may be a barrier that is difficult, or even insurmountable. They don’t want to know that they could fail under some circumstances. Still others are unmotivated, or become so excited about the idea of building a business, they rush headlong into chasing the dream without charting the course to the dream.

“In many cases, entrepreneurial growth companies create distinctiveness and protect their advantage by moving quickly, upgrading frequently, and always keeping one step ahead of the competition. Massive marketing efforts are sometimes a key element. But quality implementation, flexibility, the ability to meet customers’ needs, the successful delivery of the promised productivity benefit—are usually more important than whether a company provides a unique service, product, or business model”

--Five Myths About Entrepreneurs: Understanding How Businesses Start and Grow, © 2001 National Commission on Entrepreneurship, an initiative of the Ewing Marion Kauffman Foundation. Used with permission. All rights reserved.

Strategy—Why You Need One

- Because some businesses simply do not have a strategy that works (and have not “done the math” to show how it can work)
- So you will have a complete understanding of all of the variables
- So you can make “Yes” and “No” decisions in the middle of the game (without timeouts or regrouping at halftime)
- So you know the resources you need and how to apply them
- So you can plan effectively for an uncertain future
- So you fully think through your gut feeling

Would you climb mountains without ropes?

Would you ever climb a vertical face without ropes? Think about what goes through the head of the person who climbs a 1000-foot vertical rock wall without ropes. She believes she can do it every time (unless something completely random happens.) The ropes also cost money, time and effort to use. She must learn to plan very carefully and be at her best physical condition; to make a strategic mistake would cost her everything. What if an unplanned circumstance arose, such as a rock shifting or bad weather suddenly developing? Even with a great strategy and

planning, she will find herself in a potential life-ending situation.

Since most entrepreneurs cannot afford ropes or do not know how to use them, they simply start climbing (and hope). Think this is an exaggeration? When you face making payroll on Friday and have no cash on Monday, you will understand exactly what it means to climb without ropes. Sadly, too many people seem to skip the development of a complete strategy; they think they are great freestyle climbers. Luckily, the consequence of failure is not death—only a possible bankruptcy and lots of ego-busting pain.

Developing a comprehensive strategy—and being honest with yourself about it—is difficult. It is also essential. It will force you to understand the areas of risk and help you to form a studied plan of attack. Are you dispassionate? Only by taking an unemotional approach to your dream and forcing yourself to analyze the path to success—allowing for tough breaks or good fortune—can you create a plan that allows you to adjust to whatever comes your way without panicking. Why do investors love to invest in “repeaters?” Repeaters have climbed the vertical wall a number of times. They accept the need to think through all aspects of growing a business and are prepared for the many concerns that always arise. They have also developed the toughness to survive the challenges that are beyond their control.

“Risks can be managed by changing either the nature of the consequences or the likelihood that a consequence will occur. This involves managing the activity or situation that creates the risk. Consider, for instance, snowboarding as a personal risk management problem. The activity has both upsides (i.e., the exhilaration and thrill of snowboarding) and downsides (i.e., the potential for injury or accident). One can make decisions to reduce the likelihood of an accident (e.g., riding on designated runs at your skill level) or the severity of a potential accident (e.g., by wearing appropriate protective gear). Strictly speaking, we do not manage the risk, but rather we manage the activities that create the risk.”

*--A Foundation for
Developing Risk
Management Learning
Strategies in the Public
Service, Canadian Centre
for Management
Development*

Are you dispassionate?

For those of you who have been through the mission, vision and goals seminars, understand that that process comes much later. Right now, you need to define how you are going to do what most entrepreneurs fail at doing—survive. What are the reasons somebody should bet on you? You can set aside the vision and mission statements for now. Focus first on how you will win.

The Heart of the Entrepreneur


The broader you can strategize, the more variables you can plan for and the better you will be at getting a company off the ground. The saying about “measure twice, cut once” applies here. Let’s be honest: Entrepreneurs hate to write about strategy. They find it hard to sit down for half a day and think about possible pathways and outcomes. We see only one path and it is paved with gold, the result of enjoyable work in pursuit of a dream. You know what? It is never that easy.

The heart of the entrepreneur must contain healthy doses of determination and toughness. These characteristics help you fight to stay on your plan. They also give you the strength to adjust when some outside factor disrupts the plan. Understand that random events can cause the economy to dive, but just as

unexpectedly, you can get lucky and your business takes off due to good timing. In either case, you can throw up your hands and quit because you don’t know what to do, or you can fight your way through the issues and survive.

What makes one person get up again and again after being knocked down, when another person takes a fall once and quits? There are probably psychological answers. However, we all make decisions when we hit tough times. We decide to either fight or quit. We decide to get help or to go quietly into defeat alone. We decide to get up off the mat and try again, or just lie there. It is a choice each of us makes. Toughness comes from inside, as does determination. Only your belief in your character will determine how far you will go.

When I was younger, I used to help guide backpacking trips in the mountains. These were physically very hard and many people would crumble after the first day. At the beginning of every trip, I would look around at the 20 or so men and women and wonder: Who would be the toughest and who would be the first to crumble? No rule seemed to apply. Many of the older women turned out to be the toughest in the group. Some of the weakest were often the younger, more athletic people who started out too hard and ended up burnt out. On one trip, a woman in her 50’s climbed like a pro, never complained, kept a great attitude and, to top it off, carried fresh oranges to eat for the 10 days of the trip. While the rest of us were cutting our



“Skate to where the puck is going and not to where it’s been.”

--Wayne Gretzky

“A man in a passion rides a mad horse.”

--Benjamin Franklin

toothbrushes in half to save weight, she carried oranges. That's toughness.

Homework

Please watch the video before you complete this activity.

Part 1

1. Write a strategy. It is the start of a business plan, but is a separate document that should come first. (A business plan is the written explanation of the strategy, plus your predicted results accounting for technology, the competitive landscape, your team, and other factors.) The strategy plan is normally 2-5 pages long. Your plan should be a list of bulleted points and short sentences. Make sure your plan is direct enough so somebody else can follow it like a road map. Cover the following elements:

This is HOW you will generate profits:

HOW will you sell the product?

HOW will you scale the company as it grows?

HOW will you raise capital and at what points in your growth?

This is WHY you will win:

WHY is the market ready?

WHY are competitors vulnerable?

WHY is the risk worth the reward?

This is WHO will help you win:

WHO will be the employees who will make this work?

WHO will be advisers who have done this before?

WHO can provide financial help?

This is WHAT you do that is unique:

WHAT about your process is unique?

WHAT about your product is unique?

WHAT about your people is unique?

WHAT is your hook (marketing gimmick)?

This is WHEN you will take each step:

WHEN will you hit the market?

WHEN will you take the big steps (product release, hiring a sales force, raising capital, etc.)?

WHEN will you be profitable?

Part 2

After completing your strategy plan, find three people to read it. They should be people whose opinions you respect. Ask them to look for inconsistencies or problems with your strategy. No need for debate—just get their input. (This will be good practice for later, when people want to tell you how to run your business!)



Part 3

Most people are unaware of a strategy plan. They assume the business plan covers everything. Actually, the business plan builds on the strategy plan. Don't bother creating a business plan if you are not comfortable with the strategy. Your strategy is your 360-degree view of how and why you will succeed. Forget the details of the financials, forget the list of competitors, and forget the vision and mission (for now).

Once you have written the strategy plan, go back and think about what would happen to your strategy:

if the economy worsens?

if two competitors larger than you come out with the same product or service?

if you cannot get all of the working capital that you think you need?

In other words, think through what happens to you if the worst things happen. Can you adjust the plan? Will you survive? In many cases, the answer will be that you simply cannot survive some of these circumstances. That is not unusual. You now understand the implications of the word risk. Sometimes, you can only hope that the worst does not happen while you get the company off the ground and make it stable. What changes to your strategy might you make in these worst cases?

Now go back and review the strategy for the reverse. What happens if it takes off way

faster than you expect. What problems will that cause? Can you fund the growth? Can you find the people to help build it faster? Do you even have the experience to handle building a large operation? What changes to the strategy will you make?

This exercise can be invaluable. It will help you plan the moves you might be faced with someday. By thinking of all of the possible paths and outcomes, you are better prepared for adjustments later. By examining all of the outcomes—and being honest with yourself—you will also realize that, in some cases, your dream will not be realized. If the worst case happens to you, it will not be a complete shock; you will have anticipated the risk beforehand.

Five Big Questions to Ask Yourself

1. Can I fund this? Why do I believe this?

After taking a sober look at the strategy, as well as all of the possible risks that could become reality, you should have an idea of the range of capital you might need to build your company. You may have already picked a number out of the sky to help you sleep. Hopefully, you now have a better idea of a realistic sum. Investors like to hear a single number when people ask for an investment. For example, they respond better to statements like "I need \$1million" than they do to



statements like “I need between \$250,000 and \$1.75 million.” (The reality is that you really need to have a range in mind; if things go well, you need a lower number, but if things go poorly, you need more capital. Just don’t tell the investors your range. Give them the high number.) Most first-time entrepreneurs make the mistake of coming up with a range they might need, then giving investors the low end of the range. They think it sounds more “doable.” Actually, you should ALWAYS ASK FOR MORE THAN YOU NEED. Many excellent ideas failed to reach the market because they were simply under-funded. The entrepreneur did not plan for the market to slow down, for the expenses to be higher, or for the sales to grow more slowly.

Whatever the number you have in mind, ask yourself the question: Can you raise it?

Will the market allow for it at this time?

Do you have the ability, contacts, and skills to raise it?

Will people invest in your plan?

A later module deals in detail about raising capital. If you don’t know the answer now, don’t worry; help is on the way.

Size matters.

It is entirely possible that you may have great ideas for a company, but you know that your prospects for raising the money for those ideas are low. Avoid burning lots of

energy on those low prospects. I have seen many excited entrepreneurs waste valuable time and energy trying to get a company off the ground that they believe needs \$10 million. Had they asked themselves the questions above and been honest with themselves, they could have revised their strategies and become successful by starting smaller.

2. Can it really make a profit?

This may sound basic, but some strategies will not yield a profit. Unless you are building a not-for-profit operation and will rely on donations, you must be able to generate more income than your expenses. It is too easy—and too common—for people to be overtaken by their excitement and not “do the math” on what it will take to build, support, sell, and service the product. Would-be entrepreneurs often have a “gut feeling” that a product will be a hit. They optimistically project that sales will increase 1000% a year for the first five years. However, they often never stop to project what the costs might be and determine if selling millions of dollars of the product will generate any profits. Here is how they do it:

“If I sell 100 widgets a day at \$5 each and they cost me only \$3 each to buy from the manufacturer, I’ll make \$200 a day. If I pay myself \$150, I’ll still have enough left over for miscellaneous expenses. The world is a great place!”

This example ignores the other costs of a sales operation, such as insurance and taxes. Sound unlikely?



You would be surprised how many strategies don't make much money, even if they are executed as written.

Is it a shock, then, that people often underestimate the capital they will need? They project the potential sales, but not all of the expenses needed to build the company.

3. Will it be relevant tomorrow?

Let me use an example. A company sells franchises for retail sales of used compact discs (CD's). This sounded great when CD's first hit the market. Soon, however, the music industry began to change. The Internet brought new delivery media for music. The usefulness of a CD as a delivery medium started to fade. This company was doomed to fail without a drastically rebuilt mission. Would you want to open a travel agency today when so many people are using the Internet to make travel plans?

Step back and examine your idea. Will it still have legs 10 years from now? Some people start companies based on an idea that solves a problem that will be a problem only for a few years. It might sound like a great idea today, but unless you can make lots of money with it in a short time, or unless you figure out something else to do with the company, you are setting yourself up to invest risk and energy into something that will have no payout.

4. Does it have a "hook?"

A personal rule I have about any corporate strategy is that

it must have a few "hooks." There must be aspects of the business that are unique. It could involve the way to go to market, the retail concept, the product, or the technology. Go back and review your strategy. If I asked you three things you do that are truly unique, would you have an impressive list? It doesn't matter what product or service you are providing; you should find at least 10 different "spins" you could put on bringing it to market.

Ray Kroc wanted to start a hamburger restaurant. Nothing fancy about that. His particular spin was that he would open identical restaurants in other cities so that customers could know that the food they ordered would be exactly the same wherever they went. By the way, he also wanted the food to be prepared quickly. Those two hooks paid off pretty well for McDonald's, didn't they? What are the hooks at other successful organizations you can recall?

5. Do I have enough help lined up?

Nobody builds a company alone. It takes help with capital at times, good employees to share the work, good sales people to sell the product, accountants to track the finances, etc. In addition to support from these professionals, we need support from our spouses, our kids, our parents, and our friends. Too many entrepreneurs try to do everything on their own in the early days. When I was young, I was the prime example of the person who believed I could climb any mountain—by myself. I ignored good advice



that did not agree with my views, I tried to perform roles that were not natural to me, I became greedy when sharing stock or profits in my company, and I paid the price. Instead of seeing yourself as the central cog in the machine, your best position is as the conductor of an orchestra. Gather good advisers and employees, set the direction, and let them help.

What help do you need immediately? What gaps do you need to fill? Do you have the best possible people providing the help you are getting now? Is there someone more qualified? I learned a basic truth one day as I was getting greedy about letting people invest in my company. Consider that 10% of a \$5 million company is worth \$500,000, but 65% of a \$500,000 company is worth \$325,000. Would you like to be greedy and in control, or get more help and have more money and less risk? The same investor who taught me that lesson also complained when I wanted to hire a less qualified employee at a lower salary. The fact is, you can pay a better employee more than a simply average employee and it will be worth it. As a CEO and shareholder, I have often paid employees more than I make. That is how important good help can be. Don't be hesitant about finding help. Helpful people are all around you if you will ask.

Good strategies do not need to be complex. Many of the largest companies you know have simple, straightforward battle plans. They built their companies around these and

never wavered from the original intent. Once you have conquered the challenge of developing a great strategy, you are ready for the next step: creating the overall business plan.



