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Pay Attention to the Weather of Business and Life – And Don't Steer Into an Iceberg

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Pay Attention to the Weather of Business and Life – And Don't Steer Into an Iceberg

By Bob Porter
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A big part of my day is spent thinking about improving business strategy and developing a competitive advantage. It's what I do in the classroom, as director of UCF's executive development center, and when I help other businesses. It even spills over into the cycling club I manage.

In my way of thinking, strategy applies equally well to both business and our individual lives. Research indicates that most businesses fail to hit their goals due to poor strategic planning. It is the No. 1 reason for business failure.

I was first trained in strategy formulation and implementation during my employment with General Electric. At GE I learned we have two generic types of strategy: cost-leadership strategy and differentiation strategy. To be a cost leader you must be the lowest-cost producer of the product or service you sell.

Walmart regularly promotes that they roll back prices every day. This is price leadership that might reflect cost leadership. But they are not the same thing. You have to dig deeper to find the cost leader, which is usually an imported good from China that in turn can be sold for a lower price.

In comparison, to be successful with a differentiation strategy, you must offer something to your buyers of great value that is also unique in the market. You won't find many Ferraris parked at Walmart (or anywhere), and Ferrari does not source its parts from the lowest-cost suppliers.

"How do I choose between these two types of strategy?" I recommend unpacking this one big question into three smaller questions.

First, what does your market really want and need? Second, what are you and your company really good at producing in terms of your goods and services? Third, can you bring the answers to the first and second questions together in a way that gives you an advantage over your competition in the market you want to compete in?

These three questions are typically the easiest to answer at the time when you launch a new business. Once the business is up and running, daily operations get in the way of strategic thinking time and it's really hard to step back and fully evaluate the questions. It's even harder to see if your strategy is working.

Customers get fickle. Competition becomes smarter and more aggressive. You have the daily fires to fight. And then a natural disaster or worse hits and it seems like someone pushed the pause button on the economy. Who has time to think strategically?

This is one reason why clarity and flexibility are typically a better choice in our current markets than complexity and rigidity for most strategic plans.

Recall the story of Kodak, the worldwide leader in film-based imaging—until it lost out to digital imaging. Perhaps surprisingly, Kodak had digital technology in its portfolio very early on and could have switched over from film imaging, but chose to rigidly stick to what it was comfortable with. Despite multiple warnings, Kodak stuck to its strategy all the way to bankruptcy.

You must clearly decide if you are you going to set your strategic intent to be a cost-leader or a differentiator.

Can you be both? Yes, it's possible to integrate these two generic strategic choices (an integration strategy), but you have to be very good at both to do it! It is very rare to be able to do both for long and succeed. Otherwise, you get stuck in the middle!

A case in point is Apple. Apple for years was clearly only about differentiation (under Steve Jobs), but a few years ago broadened its focus to reduce product cost (under Tim Cook who replaced Steve Jobs). It did achieve a position in the market where it was simultaneously a low-cost producer, as exhibited by very strong profit margins, and was also a differentiated producer, as exhibited by its award-winning designs and near cult-like product following.

Now Apple appears to have lost its clarity regarding innovation, and subsequently yielded significant market share to Google on smartphone software and to Samsung on smartphones and tablet hardware. Apple is drifting toward being stuck in the middle due to loss of focus and lack of flexibility.

A good leader sets a clear and bold vision that is easy to follow. We no doubt have all witnessed the strong new leader who boldly declares a new direction for the ship he now captains. If the strategy is well-developed, despite high seas and the occasional leak in the boat, the ship, captain, and crew have a very good chance of arriving at the desired location.

But when the strategic map has been hastily prepared, and the captain's crew is not paying attention to imminent signs of peril, they rigidly keep their hand on the ship's rudder and repeatedly sail right into the storms, resulting in another loss in the seas of competition.

It's hard work to craft a clear and flexible strategy. Refine your strategy until it is clear. Build in flexibility by carefully picking the members of your crew. And then regularly set aside sufficient strategic thinking time to consider how you are doing relative to your strategic map.

Pay attention to the weather of business and life – and don't steer into an iceberg.

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