VAN Satellite 2019

Session summary

Session: Strategic choices for growth

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How to think about growth

The easiest way to grow is to sell more of your existing services and products to your existing customers. Otherwise, you can:

- Sell other products and services to your existing customers – increase share of wallet
- Sell your existing products and services to your competitors' customers
- Sell adjacent products and services to adjacent customers – pure play
- Innovate and invent new products and services for new customers

What is strategy?

Strategy is an integrated set of choices that defines your competitive advantage. It defines the choices you make about which markets to play in. It's not your vision, mission, strategic plan or operating model. Strategy should be easy to write and understand. It's about making explicit choices around:

1. **Aspiration** – *Why are you in business? What is your highest-level purpose? What does it look like (qualitatively and quantitatively) when you win?* Craft aspirations that are truly meaningful and powerful to your customers and employees. Ideally, they could connect to a deeper idea of what your firm exists to do. Start with clients not products when thinking about what it means to win. Remember: you're playing to **win** – not just compete. Think about winning relative to both your traditional and unexpected competitors.

2. **Where to play** – *Where should you compete? Which geographies, markets, customers, products?* Choose where you will and won't play. If your client base is very broad, this is about choosing where to make incremental investments in specific segments or markets.
   TIP: A strong where-to-play choice is only valuable if it's supported by a robust and actionable how-to-win choice.

3. **How to win** – *Why do your clients buy from you?* Are you winning by cost or differentiation? Remember: low cost doesn't have to mean low price. Your how-to-win choice should be suited to the context of your firm – i.e. highly difficult for competitors to copy.

4. **How to configure** – *What distinctive capabilities must be in place to win? What is unique about your people, technology or processes?* You need to invest disproportionately in building the core capabilities that produce competitive advantage. Play to your own unique strengths. How can you stretch those capabilities into new ways to make more money? TIP: Be honest about the state of your capabilities. Ask yourself what will be required to keep and attain the capabilities you require.

5. **Management systems** – *What leading KPIs do you need?* Your management systems should: communicate strategy, support capabilities and measure strategic performance. Your behaviours, culture and KPIs should purposefully support your strategic choices and capabilities. E.g. The Four Seasons holds its hotel managers accountable based on error rates of their housekeepers. Zero errors is not the goal. That would mean

managers hadn’t trained their house keepers well enough to find faults so they can continue to improve service.

Should you bridge the gap using M&A?

M&A needs to be born out of strategy. Without this, you’re taking on a high risk of high-risk transactions. Your rationale for M&A might be to:

- Improve profitability by acquiring another business and consolidating the overhead base
- Enter a new geography by acquiring a business already established with an existing customer base
- Add to your product offers and expertise by acquiring a business with alternative offerings and relationships
- Access new customer segments by acquiring a business with an alternative value proposition
- Buy the book and incorporate it into existing business, leveraging existing infrastructure
- Acquire the talent you need to execute strategy (and buy the book too!)
- Grow in your current market by acquiring a direct competitor
- Protect an existing market

Identify the right opportunities

Identify strategic deals instead of simply reacting to the available deals in the market. Assess potential opportunities by overlaying your strategic criteria. E.g. Does it reinforce my differentiation?

Having found a target, before you spend money on due diligence:

- **Establish a Letter of Intent**, agreeing on a headline price upfront (subject to due diligence) and, importantly, enter into a period of exclusivity.

- **Flesh out your investment thesis**. It’s important to document why you’re buying the business and present this to your investment committee or board. This makes sure you’ve identified a genuine, strategic target. Your thesis should provide an overview of the business, the strategic rationale for the bridge it creates between where you are and where you want to be. It should identify why you will see more value than you’re paying for and where are the big risks.

Now you can de-risk some key assumptions through due diligence alongside engaging in negotiation, with a view to:

- Identifying red flags in the business, its market or its financial/tax affairs
- Proving key assumptions within the investment thesis
- Further developing your value and growth creation strategy for the acquisition

Be prepared to chase a lot of ‘pigs’ before you find the ‘prize’.

Resources: Playing to win

Karan Anand is a Director at Monitor Deloitte, the Strategy Consulting practice of Deloitte. He has 10+ years’ experience in corporate and business unit strategy, strategic design and intent, digital strategy, and target operating model design. His colleague, Senior Manager Seb Wilkinson, focuses on growth strategy and M&A.