



FINANCIAL TIMES

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Essential Guides

DEVELOPING A BUSINESS STRATEGY

HOW TO USE STRATEGIC PLANNING TO
START UP OR GROW YOUR BUSINESS

VAUGHAN EVANS

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PEARSON

Praise for *The Financial Times Essential Guide to Developing a Business Strategy*

'I sincerely enjoyed reading this book. Vaughan Evans not only demystifies strategy, he provides a useful and enjoyable step-by-step guide to constructing effective business strategies. During my career I have witnessed and created hundreds of strategies, both good and bad. Applying these techniques will undoubtedly help produce more of the former than the latter.'

Jeff van der Eems, Chief Operating Officer, United Biscuits

'A wonderfully practical and highly readable guide to strategy development. Evans's Strategy Pyramid provides a simple but thorough framework, which he illustrates clearly through a step-by-step case study and many fascinating vignettes. Definitely worth working through.'

Marcus Alexander, Professor of Strategy and Entrepreneurship,
London Business School

'The right strategy is key to business success, and yet most business leaders avoid thinking about or planning strategy. They fear that it needs the intellect of a nuclear physicist just to begin to design one. Vaughan Evans dispels this myth. He demonstrates clearly and concisely how anyone who is passionate about their business can develop a strategy that should serve them well.'

Guy Hands, Chairman and Chief Investment Officer, Terra Firma
Capital Partners Ltd

'An excellent and very detailed handbook for anyone responsible for developing strategy'

Adrian Beecroft, Chairman, Dawn Capital and former Senior
Managing Partner, Apax Partners

Table 3.5 Extramural Ltd: market risk in school activity tours

<i>Market demand risks</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Comments</i>
Triple-dip recession	L/M	Low	<ul style="list-style-type: none"> The industry has weathered the double-dip recession post-2008 crash reasonably well
Government policy U-turn	Low	High	<ul style="list-style-type: none"> Cross-party support for outdoor, residential experience for schoolchildren during term-time over last ten years
Union concerns	Low	Med	<ul style="list-style-type: none"> Little impact to date of one union's concerns on teacher responsibility for child safety
Child serious injury	Low	High	<ul style="list-style-type: none"> No serious injury at an AALA centre <i>on licensed activities</i> since formation, let alone through negligence
<i>Market demand opportunities</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Comments</i>
Union changes stance	L/M	Med	<ul style="list-style-type: none"> Dogmatic anti stance, but dissenting voices within
Further LEA Centre closures	Low	L/M	<ul style="list-style-type: none"> Many remaining centres have good, well invested facilities
Government promotional schemes	Low	Med	<ul style="list-style-type: none"> Social engineering expensive in austere times

But what if Government were to withdraw support for school activity tours during term time? Unlikely, perhaps, since all three main political parties are vociferously in favour of such character-building development. But, with so much pressure on meeting educational targets, the possibility of a more conservative voice triumphing exists. Government withdrew support for school ski tours during term time with the introduction of the National Curriculum in 1988, whereupon the market for school ski trips

dropped by three-quarters. Could this happen too to school activity tours?

And what of teacher union support? One large union has long discouraged its members from joining school activity tours, whether to LEA or commercial providers, claiming that teachers cannot be guaranteed exemption from personal responsibility for child safety. There are voices in the other teacher unions which advocate likewise.

And what of child safety itself? Following the tragic events at a boating incident in Lyme Bay in 1992, the industry has been transformed and overseen by both an industry association and a regulatory body. Accidents have occurred, but no child has since died at a licensed centre while engaged in licensed activities – a record the industry is proud of and desperate to maintain. But what if the unlikely were to occur?

The Davieses realise that the very existence of their business is subject to an unusually extreme degree of risk. Market demand could be hugely impacted by adverse change in any one of three major risks – Government U-turn, union U-turn, child serious injury. Low probability, yes, but with a huge impact on market demand (see Table 3.5).

There are counterbalancing opportunities – Government might resuscitate some of the schemes for subsidising developmental trips for children from inner-city schools it ran in the mid-2000s, or the one teacher union opposing school activity tours might come in line with the others.

But the Davieses know that their emergent strategy, to be developed in line with expected slow growth in market demand, must be cognisant of the great risks faced by the whole industry. Extramural must play its full part in mitigating those risks, perhaps through taking leadership in the industry association to promote the benefits of the product to Government, teacher unions and parents and in ensuring, in association with the regulator, that child safety remains paramount and at the core of every decision made in the further development of the industry.

Essential checklist on forecasting market demand

Set out for each of your main business segments, succinctly but convincingly, your assessments of:

- Market size – find a source or perhaps craft it yourself
- Market demand growth in recent years – likewise
- Demand drivers and how these are changing
- Forecasts of future market demand – based on future demand drivers
- Market demand risks and opportunities.

If your business is a start-up in a new market niche, concentrate in Chapter 3 on the rationale for the very existence of that niche. Undertake primary market research to unearth evidence to justify that niche.

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Gauging industry competition



“ The trouble with the rat race is that even if you win you are still a rat.

Lily Tomlin

In this chapter

- Assessing competitive intensity
- Assigning customer purchasing criteria
- Deriving key success factors
 - Essential tool: Economies of scale

- Gauging competition in a start-up
- Industry competition risks and opportunities

Face it. You are not alone. There are others who offer the same, or very similar, products or services as you.

They are your competition. Pay them due respect. Then outwit them.

But first think about the issues that apply to all of you, to you and to them. These are the issues of industry competition.

This is the other twin aspect of micro-economics that you need to grasp. The first was market demand, covered in the last chapter. Market demand and industry competition, demand and supply, together compose the micro-economy in which your firm operates.

This chapter also includes two essential tools which could arguably form their own building block, namely assessing customer purchasing criteria ('CPCs') and deriving key success factors ('KSFs'). They form the basic analysis upon which the study of competitiveness in Chapters 5 and 6 can build.

Assessing competitive intensity

Michael Porter's five forces analysis is the pre-eminent tool in this building block and has been since the early 1980s.

It remains the *sine qua non* of micro-economic analysis for business strategy. Porter was himself an industry economist and much of his work was effectively a reinterpretation of established micro-economic theory.

His genius has been in taking some quite difficult economic concepts and presenting them in an everyman way, with a diagrammatic representation and sets of checklists accessible not just to fellow economists but to every manager.

His basic premise is this: competitive intensity determines industry profitability. To determine the latter, you must first understand the former. And there are five fundamental forces which drive competitive intensity (see Figure 4.1):

- Internal rivalry
- Threat of new entrants
- Ease of substitution
- Customer power
- Supplier power.