'Entrepreneurs lack one precious commodity: time. This book – short, sharp, clear, lively, engaging – breaks that deadlock.'
GRAHAME HUGHES, FOUNDING DIRECTOR, HAVEN POWER

Strategy

Plain and Simple

3 steps to building a successful strategy for your startup or growing business

Vaughan Evans

FT PUBLISHING
FINANCIAL TIMES

Praise for *Strategy Plain and Simple*

'*****! This fast-moving book gives a proven, practical approach that you can apply immediately to start a successful business or build your current business into a lean, mean profit machine.'

Brian Tracy, success guru, speaker and author, *Now Build a Better Business!*

'Clear, straightforward and practical guidance on how to build a business. A must-have for the SME owner or manager.'

James Courtenay, former Global Head of International Corporates, Standard Chartered Bank

'If you are a small business or start up, this is an excellent and admirably succinct guide to help you get your strategy right. Business strategy is all too often discussed in the context of big business. Vaughan Evans, on the other hand, makes it relevant to SMEs, demonstrating not only why but how to develop the right strategy to succeed.'

Anthony Karibian, founder and CEO, bOnline; founder, XLN and Euroffice

'A concise and compelling insight into strategy development, one of the key success factors in every business, large or small.'

Mike Garland, former Partner and Head of Portfolio Group, Permira Advisers LLP

In real world strategy development, there will be more such charts, one for each key business segment, and each will have more drivers. But the fundamental principles of the HOOF approach will remain. The chart will show the historic growth rate (H), identify the relative impact of drivers past and future (O & O) and conclude with a growth forecast for that segment (F).

NO WRAP FOR THE CINEMA

In the mid-1980s, I was tasked to review a business plan for a company intent on developing a string of multiplex cinemas in Britain. The concept had taken off in the USA. Would it work in the UK?

Cinema attendance in the days before television had been an integral part of the British way of life. Numbers peaked at 1.64 billion in post-war 1946 – equivalent to 33 visits to the cinema that year by every man, woman *and child* in the UK! That is one visit every eight or nine days by every single person in the country.

Television changed all that, offering moving picture entertainment from the comfort of the living room. Cinema attendance went on a prolonged downward trend as more and more households acquired the televiewing habit. By the1980s, video ownership and rental had accelerated the decline and the end seemed in sight for the cinema.

By 1984, UK cinema attendances had dropped to 54 million, not much bigger than the 35 million who went to see one film alone, *Gone with the Wind*, in the UK in the 1940s. It had dropped like a stone from 100 million in 1980.

And, yet, there seemed to be some sort of recovery going on. In 1985, attendances had bounced back to 70 million and, in 1986, had consolidated at 73 million. It was 1987 when I looked at this business plan. What was going on? Could the UK cinema industry be reborn?

There were two demand drivers that seemed particularly promising:

- The advent of multiplexes – the first such, The Point in Milton Keynes, with ten screens, had sold 2 million tickets in its first two years and its bustling foyer had become a social meeting point for the youth of the city.

- The upgrading of former flea pits – with consumers in London and other cities seemingly prepared to pay a bit more for a more comfortable and uplifting experience.

But the demand risks remained huge, including:

- Milton Keynes may not be representative of the country as a whole.
- Mutliplexes, if successful, may put small single-screen cinemas out of business, leaving minimal net gain.
- Multiplexes may be a fad.
- DVDs were taking over from video cassettes, raising the prospect of improved quality home movie experience.
- All the socio-economic factors behind the prolonged downward trend in cinema attendances since the 1940s remained.

On balance, it seemed worth the punt. Multiplexes seemed a ray of sunshine. Cinema attendances appeared more likely to maintain their recovery, rather than slip back into decline. But my banking colleagues were more risk-averse and the bank withdrew from the deal.

A bad call. Cinema attendances carried on rising and, by 1990, had recovered to the 100 million level of ten years earlier. And they did not stop there – they carried on growing, with the occasional annual blip, through to a peak of 176 million in 2002. Since then, they have hovered around the 170 million mark, with annual fluctuations tending to reflect the relative success of each year's blockbusters.

Britons now go to the cinema on average three times a year, way, way down on the 1940s, but not too far below the USA at four times and, keenest of all, Iceland at five times.

And what of the future? Positive demand drivers now include luxury cinemas, 3D films and the occasional mega blockbuster. Offset against this are excellent quality large-screen televisions, also with 3D.

Another negative driver is competition not just from television, video, internet and computer games, but also the near video-on-demand offerings of Netflix and Amazon.

Then there is the improved quality of drama series on television, exemplified by *Game of Thrones*. With playback capabilities such as iPlayer and personal video recorders, let alone DVD box sets – and not to mention illegal downloading – viewers can accumulate so much must-watch past television that they can never find the time to view it all, let alone go to the cinema.

Finally, the film industry faces the challenge of finding another franchise to rival the extraordinary success of series such as *Harry Potter* or *Lord of the Rings*.

It is a tough call. But one thing is for sure – cinemas will not go with the wind.

Assessing demand for a startup

If your business is a startup, this may well be the trickiest of part of your strategy development. And the most crucial.

Yours may be a new product or service designed to convey a customer benefit not previously realisable. In which case, how do you define the market?

What is market demand for a product that previously has not existed? What is its size? What are its growth prospects?

On the other hand, your startup may be in a market that is already well-defined – like a guest house, which may well be unique and distinctive, but fits snugly into an already buoyant market for three-star tourism in your region.

Or you may be opening a boutique selling designer childrenswear on the high street. Again, that is a definable, existing market to be researched in the same way as set out above.

But what if yours is, indeed, something that has not existed before? How can you convince your backer that there will be buyers of your product or service, and at that price? You need evidence.

You will have to do some test marketing. If yours is a business-to-business proposition, get on the phone and set up meetings with prospective corporate buyers. Explain the benefits of your product and why, at that price, they have a bargain.

Keep a record of these meetings and analyse the findings. Write a report drawing out key conclusions from the discussions, with each supported by bulleted evidence – whether comments from named customers, comments from third parties quoted in the press or data dug up off the web. Collate them into a short and sharp market research report, which will be an appendix to your strategy document.

If yours is a business-to-consumer product or service, test it downtown. Get out your clipboard, stand in a mall or outside a supermarket and talk to shoppers. If you are offering a product, show them; if a service, explain lucidly but swiftly its benefits.

Again, collate the responses, analyse them, draw firm conclusions, support them with quotes and data and stick the market research report in your appendix.

Now, based on those responses, make an estimate of your potential market size. Imagine there were many suppliers of your product or service and that the whole country was aware of its existence, what would the market size be? How does that compare with the market size for products or services not a million miles different from what you will be offering? Does your estimate make sense?

And how about market demand growth? If your startup is serving an existing market, then you can use the same HOOF approach for demand forecasting that an established business would use.

If your startup is for a new market, forecasting demand growth will not be your prime consideration. That will be the existence of such a market in the first place. Any growth on top of discovering and serving a new market will be icing on the cake.

SIMPLE TIP

If your business is a startup, test the market. Pick up the phone or get out and talk to people. Do some primary market research. Amass, digest and analyse pertinent data. Be armed for the inevitable grilling from your backer.

Assessing industry competition

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

Lily Tomlin

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 your competitors. These are the issues of industry competition.

This is the other aspect of understanding the market. The first was the demand side, covered in the last section. This is the supply side. Market demand and industry competition, demand and supply, together compose the market in which your firm operates.

You need to understand both sides of the market in your strategy development.

In this section, we will look at the supply side in five parts:

- Checking out your competitors.
- Gauging competitive intensity.
- Identifying customer buying criteria.
- Deriving factors for success in your industry – a crucial preparatory step prior to creating a competitive advantage for your firm in Part 2.
- Acknowledging competition in a startup.

First, take a good look at your competitors.