

THE

The title 'Mobile MBA' is rendered in a bold, multi-colored, 3D-style font. The letters are primarily white with blue, green, and yellow accents. The word 'Mobile' is on the top line and 'MBA' is on the bottom line. The letters are interconnected by a network of colorful lines (yellow, blue, green, pink) that resemble circuit traces or data paths. Some lines end in small circles or dots. The word 'THE' is written in a smaller, white, sans-serif font above the 'M' in 'Mobile'.

Mobile MBA

112 SKILLS TO TAKE YOU FURTHER, FASTER

JO OWEN

THE

Mobile MBA

The graphic features the text 'THE Mobile MBA' in a bold, sans-serif font. The word 'THE' is in a smaller font size and positioned above the 'M' of 'Mobile'. The words 'Mobile' and 'MBA' are stacked vertically. The letters are filled with a dark grey color and are surrounded by a complex network of white lines and shapes that resemble a circuit board or a technical diagram. These lines include straight paths, right-angle turns, and small circles, some of which are connected to the letters. The overall design is clean, modern, and tech-oriented.

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JO OWEN

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Introduction

An MBA is a curious beast: it can accelerate your career, even if it has limited practical value in day-to-day management.

Top employers hire top MBAs, but not because MBAs have mastered the mysteries of management. An MBA is a hallmark of personal commitment, effort, and ambition which employers value more than the actual content of the MBA course. Bayesian analysis, the Black Scholes option pricing model, and advanced corporate strategy are all more important in the MBA course than they are for a manager who is faced with a difficult customer, intransigent colleague, awkward boss, and a tight project deadline.

In practice, the MBA is a classic university course: it is very good at transferring a body of explicit knowledge from one generation to the next. Explicit knowledge is about “know-what” skills, like finance, accounting, math. This is useful knowledge to have. But as managers’ careers progress, they find that technical skills become less important and people and political skills become more important. People and political skills are classic examples of tacit knowledge or “know-how.” Universities and MBA courses are simply not very good at dealing with this sort of knowledge.

Like the MBA, the aim of this book is to help you accelerate your career, but not by simply reducing an MBA down to a few simplistic formulas. The aim is more ambitious than that.

This book assumes that you are smart. So *The Mobile MBA* does not spell out each MBA theory in detail: it is not trying to condense an entire MBA into one book. The purpose of *The Mobile MBA* is to show how you can apply MBA ideas in daily management practice. So the first part of the book breaks the key ideas of the MBA into bite-sized chunks and shows how you can use them.

If you already have an MBA you will discover how to use strategy, finance, accounting, marketing, organization, operations, math, and human capital *in practice*. If you don’t have an MBA, this section will show you that there are no dark arts which only \$60,000 and an MBA will reveal. It will demystify the mysteries of the MBA and lay out the simple principles which all managers must learn.

The second part of the book fills in the holes left by the MBA. It gives you a quick reference check to the survival skills of management. It is not a substitute for your personal experience: it is a sanity check for you. You can see if your experience is good or bad and if there are better ways of handling the endless ambiguous events which make management both challenging and rewarding.

You can read this book however you want. You do not have to start at the beginning and end at the end. You can dip in and out. You can keep it by your desk and use it as your just-in-time coach, to give you ideas and refresh your thinking when you face a tough challenge, or you can carry it with you, so you can use it on the way to meetings, workshops, or presentations. You can also use it alongside

its online version. The address for this is www.mobile-mba.com. As well as this, the book comes with 11 free video *Skill-Pills*. These are brief training videos that can be downloaded to your smartphone, tablet, or computer. They will provide you with the skills and information needed to complete a task, wherever you are. Scan the QR code with your smartphone (you may have to download an app to help you do this). You can use the QR code that's inside the back cover of the book, or you can use the codes at the beginning of each chapter to take you straight to the interactive version. Keep that section on your phone or laptop and you will have the resource available to you wherever you go—you will have a truly mobile MBA in your hands.

Whether you have an MBA or not, *The Mobile MBA* is a very small investment in your future which can help you achieve very large returns. If *The Mobile MBA* helps you make the most of your career, it will have served its purpose.

1

The world of strategy

- The nature of strategy 2
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THE NATURE OF STRATEGY

The best predictor of next year's strategy is this year's strategy, plus or minus a bit. Most managers simply do not spend their lives re-inventing the firm's strategy every day. Even the CEO does not do this. Most strategy is incremental: it builds from one year to the next. Look at most of the top firms in the world and they have not radically changed their strategies for years.

dinosaurs can't dance Firms that try to re-invent themselves as something different often fail: dinosaurs can't dance. Instead, most firms try to get better and better at what they already do, and then hope that no one else comes along with an idea which wipes out their business model.

Incremental strategy is risk averse: most businesses do not like risk, unless it is a guaranteed success. So the result is that most firms rise or fall with the market. In 1984 the FTSE 100 was created. It represented the very best of British business: the top 100 public companies. They appeared mighty and impregnable. By 2011, just 28 of them are still in the top 100. The problem is not that management has suddenly become incompetent. The problem is that the world has changed faster than they are able to change: strategic success formulas have become formulas for failure.

The reality of corporate strategy is far removed from the world of the gurus who teach strategy at business schools. But it pays to have an understanding of the two main schools of strategic thinking. Even to talk of "the two main schools of strategy" puts you far ahead of most of your peers. Here are the two schools:

The rationalists

The standard bearer for the rational school remains Michael Porter. His five forces analysis of industry claims that you can understand the attractiveness of an industry by assessing the strength of competitors, suppliers, customers, substitute products and services, and potential new market entrants. He leads a field which believes that analysis will provide the answer to most strategic challenges. Most top consulting firms believe that hard data and deep analysis are the way forward. Such a firm, BCG, invented the "BCG grid" which is a very analytical and prescriptive way of deciding how different businesses should be managed for cash, depending on their relative competitive position and the relative growth of their markets.

The rationalists face two practical challenges. The first is that messy, real-world reality often does not conform to crisp, clean models: how you choose to define a market can radically change the answers you get. The second practical problem is that if everyone does the same analysis and comes up with the

same solution, you have a recipe for collective disaster. Success does not come from doing the same as all your competitors, but by being different in a relevant way. The good news for managers is that management has not yet been reduced to a few simple formulas: you still need smart management to deal with messy reality.

The romantics

There was a rebellion against the analytical types and their diagrams. The rebellion was led by C.K. Prahalad who showed that strategy is more a process of discovery than of analysis. You cannot predict the future, but you can discover it. Let us call this group the romantics, those who rebelled against the rationalists. Prahalad, supported by Gary Hamel, created two new ideas which have now found their way into mainstream management thinking: strategic intent and core competence. Prahalad was followed by other academics who he had trained including Chan Kim (blue ocean strategy) and Venkat Ramaswamy (co-creation).

Here is how their ideas stand apart from the rationalist tradition:

- **Strategic intent.** Instead of being constrained by analysis, strategic intent dares management to dream and plan for the seemingly impossible. The idea is to stretch the firm into business *not* as usual, to break the rules so that even smaller firms can challenge market leaders.
- **Core competence.** Instead of building points of differentiation around price, packaging, and performance which can be easily copied, build deep capabilities which cannot be copied quickly. Then exploit those capabilities across markets: for instance, Honda engine technology spreads from cars to outboard motors to motorbikes and mowers.
- **Blue ocean strategy.** Instead of competing in the red ocean of existing markets, where there is warfare for market share, discover uncharted new territories where you can succeed without competing: all the traditional analysis of markets and competitors disappears because you are competing in a completely new way.
- **Co-creation.** Instead of analyzing market needs and consumers, work with your users to identify what they most need. Let them help you develop and design new products and markets: treat them as partners, not just as customers.

Both have a place

In practice, both schools of strategy have their place in the sun. The rationalists tend to be better at incremental strategy for established and legacy organizations. The romantics tend to be better when you are looking for that radical breakthrough or you want to mobilize the organization for change. The rationalists separate developing and implementing strategy. For the romantics, developing and implementing strategy go hand in hand, and involve a much wider group of people, inside and beyond the firm, than the rationalists would normally involve.

DEALING WITH STRATEGY

If you want to succeed as a top manager, you have to show you can handle a strategic discussion.

An MBA course may let you believe that you can fix a company's strategy by reading case notes and analyzing sheets of data. But in reality it is not that simple. There is always ambiguity and uncertainty. But you need to know how to handle a strategic discussion in your organization. Instead of having smart answers, you need to have smart questions.

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The process of strategy formulation is mainly about seeing things from a series of different perspectives, and asking the right questions about each perspective. Each perspective not only gives you a different view but may be in conflict with the others. There are no simple answers, so the discussion is important and you need to be able to contribute to it intelligently.

Here are the six main perspectives you need to think about and the typical sorts of question you need to be able to ask:

- **Customers.** What do they want? Are there under-served segments? Are there unfilled needs? How big and profitable is the potential of each market segment? Can we change our pricing or product for different customer segments (types)? How can we serve our existing customers better, retain them for longer, and make more money from each one? How can we acquire new customers more effectively and efficiently? What can we learn from our heavy users and from customers who defect? Can we grow into any new geographic markets?
- **Competitors.** Have they left any unserved segments or markets? Can we build any barriers to entry? Do we have any advantage (costs, brand, location,

service) which the competitors cannot copy? What is their advantage over us? Do they have any profit sanctuaries we can disrupt? How will they react to any move we make? How fast and well can they copy us?

- **Channels.** What is our best route to market both for acquiring new customers and for serving new customers? What is the cost and effectiveness of each channel? Are there any new channels or partnerships to test and to build?
- **Product.** Can we use or adapt our product for another market or territory? Are there other offerings in other markets or from our competitors which we can learn from or improve? What is wrong with existing products? How easy or hard is it to copy our product and how can we defend it? Can we adapt or develop our existing products further and can we extend our brands any further? Are there any disruptive technologies out there which are either a threat or an opportunity for us?
- **Economics.** What is the cost to serve (and potential profitability) of each segment? Can we be lowest cost sustainably? How can we play with our cost structure (fixed and variable) and pricing structure to cause maximum damage to competitors? How can we use our suppliers and supply chain to better effect? Can we reduce our cost base through efficiency, re-engineering, outsourcing, partnerships? Should we look at game changing acquisitions: to fill out our product portfolio, to gain market access, or to reduce costs?
- **Corporate perspective.** This is where theory meets reality. You may be asked to dream the dream and be creative, but ultimately you will be rewarded not for taking a massive risk but for finding the incremental gain which drives the business forward: business is risk averse. Second, from a corporate perspective you will be rewarded for following the vision and agenda of the top team: your brilliant idea will remain a pipe dream if it does not fit with the corporate agenda.

Keep pushing at different perspectives and you will eventually find a new insight. Chase the insight, not consensus. Consensus will lead to a me-too strategy where you follow competition. Insight will drive you to a new place altogether.

APPLYING STRATEGY TO YOUR AREA

If you want to make a difference and be visible to top management, align what you do with top management's strategy. This is known as a BFO: a blinding flash of the obvious. It is so obvious that it is routinely missed by most managers. Many departments simply keep on pushing the agenda they inherited, instead

of thinking what is really needed. Just as the best predictor of next year's strategy is this year's strategy, so the best predictor of next year's departmental budget is this year's budget. The incremental approach is low risk at both corporate and departmental level. But at some point, incremental paths slowly diverge. You need to bring them back together again, and be seen to be doing so.

Even if the overall corporate strategy changes little, the language and emphasis will change from year to year and from CEO to CEO. The focus will shift from customers to products to costs to quality to globalization and back to customers again. Essentially, the CEO and top management are telling a story about what they think is important, and one they want you to follow. This is your chance to shine: show that you understand the new focus and that you are doing something about it. You will immediately set yourself apart from your peers who are doing business as usual.

The question is: how do you show you are being strategy driven? A simple and real case will make the point (see below).

If the facilities manager can act strategically, anyone can.

So what if you cannot effect a strategic revolution to align your area with the corporate strategy? The next best thing is to make sure you talk the language of the new priorities. So if the new priority is about customer focus, highlight all the work that you do that is customer focused and show how you are increasing that focus in your unit. Talking this way will be music to the ears of top managers who are normally very frustrated that their ideas are neither fully understood nor fully implemented throughout the organization: you will sound different and stand out from your peers for all the right reasons.

A simple case

You are the facilities manager for a professional services firm. The new CEO has decided that the firm needs to be more client focused and more collaborative. So what on earth does that have to do with you? You generally worry about non-client focused things like coffee machines, office cleaning, and where the desks should be placed.

But you are different. You realize that this is your chance to make a difference and to shine. So you start by changing the layout of the office. To encourage staff to spend time with clients, you introduce hot desking with not enough desks to go around for all the staff. To encourage a more collaborative workplace, you replace executives' private offices with an open plan space. You then work with IT to replace all the desktops with laptops so that executives can travel and spend more time with clients. In essence, you effect a strategic revolution.

FOUR PILLARS OF STRATEGY

Most business strategies are very simple. They all pass the elevator test: "Can you explain your strategy to an investor on a short ride in an elevator?" Executing the strategy is harder than describing it. Most strategies are built on one of four basic pillars: customers, products, competition, or economics. Each pillar gives a different insight and different approach:

- **Customer led.** Solve a customer problem or need; build a brand and franchise. FMCG (fast moving consumer goods) are the natural home of customer focused businesses. New entrants will often solve an existing or unknown customer need in a unique way. The successful dot.com businesses delivered a customer need, like Facebook and Amazon. The dot.com failures fell in love with the product and technology (Boo.com, Webvan) and failed.
- **Product led.** Build a better mousetrap; build a new product development machine. Pharmaceutical companies are classic product innovation machines. But old markets can be upset by new entrants coming in with new products to disrupt the incumbents: think of Dyson in vacuum cleaners and Amazon in book retailing. It was very hard for the incumbents to follow.
- **Competitively focused.** Can we stay level with or beat our peers? Incumbents tend to be in oligopolies where they follow each other with minor differences. New entrants come in with completely new approaches: think of the major airlines and the rapid arrival and growth of the low-cost carriers.
- **Economically focused.** Achieve economies of scale; lowest cost producer. Oil and gas firms are obvious examples. Many large car firms became obsessed with cost and economies of scale and forgot their customer focus and product quality, leaving the way open for new entrants from Japan.

To make it more complicated, there are differences between new entrants into the market and incumbents. Typically, incumbents layer one advantage on top of another. New entrants seek a big advantage in one area: they practice asymmetric warfare. Successful new entrants change the rules of the game in ways which the incumbents cannot follow. Here are some simple examples to make the point:

Strategy type	Incumbents	New entrants
Customer focused	P&G, Unilever, Coca-Cola	Virgin, Facebook
Product focused	Pharmaceutical firms	Dyson, Skype
Competitively focused	Major airlines, banks	Ryanair
Economically focused	Oil and gas majors, miners	Dell as a start up, Formule 1

New entrants succeed not by copying the incumbents, but by being different. But their formula can be copied by other new entrants, so they quickly have to raise their game and start layering in new advantages. So Microsoft started out as product focused (by providing an operating system for early IBM PCs) and then became competitively focused, now dominating the market for desktop operating systems. Google followed suit. It started as product focused by providing a fast search facility, then built a unique economic model of paid search and finally is becoming competitively focused as it seeks to dominate the global market for organizing the world's information. Google's original product advantage was easy to copy; the economic model of paid search was harder to follow because Google had scale and reach others could not match. The final, competitive advantage of organizing the world's information is so scale-sensitive it will be very hard for anyone to follow.

If you are an incumbent, strategy will be incremental and low risk: expand a product range or channel, reassess investment priorities. If you are a new entrant, do not play the incumbent's game. Change the rules of the game so that the incumbents cannot follow you, and then change the rules of the game again so that other new entrants cannot follow you.

STRATEGY AND THE ART OF UNFAIR COMPETITION

The goal of strategy is very simple: you have to find a source of unfair competition which results in making excess profits. Regulators and competitors should hate you for this, but without it, you fail. Every firm needs to make "excess" profits somewhere to stay alive: this profit sanctuary will help to pay for all the projects that go wrong, for investments that take time to mature, and to offset the impact of competition, customers, taxpayers, and staff who always seem to want more and give less.

You can only make excess profits if you have a source of unfair competition somewhere. All successful businesses have some form of unfair advantage, which other competitors find very hard to copy. For instance, you may:

- Have a license to drill oil in a low cost oil field (e.g. Exxon, Petrobas, Shell)
- Be in the best location on Main Street (e.g. McDonald's, Starbucks)
- Own copyright or patents (e.g. Disney, Dyson, hi-tech firms)
- Be the first to move into a new market and dominate it (e.g. Google and paid search, Microsoft and desktop operating systems)
- Have a powerful brand (e.g. P&G, Unilever, Nike)
- Have a global network which is hard to copy (e.g. McKinsey and Goldman Sachs)
- Own a unique resource (e.g. Heathrow landing slots)

If you and your firm talk about "points of differentiation," be very worried. That is a weak form of competitive advantage. Your goal is to have a thoroughly unfair advantage which allows you to make large amounts of money. The problem with a fair fight is that you might lose it: make sure the competitive fight is as unfair as possible.

What is your source of unfair competitive advantage?

PORTFOLIO STRATEGY

Portfolio strategy is a classic MBA lesson. But as with some theories, the realities can be a stranger to the practice when it comes to corporate level strategy. The two main issues are that portfolio strategy is a flawed theory and practicing leaders think of their portfolio in a different way.

Outline of the theory

Your investment strategy is determined by the relative competitive position of your business and by the growth rate of its market. This gives rise to the following prescriptions:

- High relative competitive position, high growth market: reinvest cash to maintain share
- High relative competitive position, low growth market: milk the product for cash
- Low relative competitive position, high growth market: sell the business
- Low relative competitive position, low market growth: exit, close, sell

The theory breaks down as soon as it hits reality. The first big problem is about defining your market and your relative competitive position. For instance, Flash was a powdered floor cleaner with 45% share of a declining market (the powdered market). But if it was seen as part of all floor cleaners (including liquids and creams) it had about 20% of a growing market. Depending on the definition, you could say it was growing or declining and be perceived as a market leader or a me-too brand. How you define the brand defines your strategy.

The second problem with this approach is that if everyone follows it, you have collective marketplace insanity. For instance, milling and baking is a dull and declining business in many mature markets. So you would want to run it for cash or exit it. The more you run the business down, the more portfolio theory becomes a self-fulfilling prophecy. As no one invests in it, the industry disappears as surely as the Cheshire Cat leaving nothing but a smile behind. The same thinking would apply to steel and other mature industries.

Practicing leaders think of portfolio strategy differently

If you are in an industry then that is your business and your future. It does not matter whether the theory says it should be growing or declining. As a leader, your job is to make the most of your business. So you should protect and grow it. If you are a steel maker, you could argue that making computer games is a more attractive industry with more growth and better margins. But that does not mean you should ditch steel and enter computer games. Your investors can make that decision in order to protect their investment portfolios, but you have your business to run. And even if the whole industry is in decline, there is still plenty of room for you to succeed:

- In the steel industry, Nucor grew by adopting a radically different model from the incumbents (recycling, mini mills versus large integrated mills).
- In milling and baking, RHM saw that other players were running their operations down. So they invested in their own milling and baking operations to make them the best and at lowest cost; they built share and protected margins.

Let shareholders worry about their portfolios; they can diversify at very low cost. As a leader, focus on your mission rather than worry about portfolio balance.

CREATING A VISION FOR YOUR FIRM AND YOUR TEAM

A vision is a story in three parts:

- This is where we are.
- This is where we are going.
- This is how we will get there.

And if you want to make the vision truly compelling, you add a fourth part: “and here is your very important role in helping us get there.” In other words, make the vision personal. Telling people that your vision is to increase earnings per share by 7% for the next five years is not wildly exciting: instead show how achieving this will help create growth and more job opportunities for all.

Often the best visions are the simplest: “We will become more customer focused,” “We are going to become international,” “We will professionalize our operations.” These are simple statements that everyone can understand, and they give you a script to follow for the rest of the year. If you are running a large organization, you may want a grander vision.

***often the best
visions are the
simplest***

If you want a big vision, try this one: “We will put a man on the moon within ten years.” Kennedy’s vision, in the wake of Sputnik, seemed like a pipe dream. But it was achieved. Since the vision, NASA has had successes and failures (Hubble and Challenger), but has lost its way compared to the time it was driven by Kennedy’s compelling vision.

To test your firm’s vision, think of Kennedy, NASA, the space race and Russia. RUSSIA is the acronym for what makes a good vision:

- **Relevant:** it meets a need which everyone inside the firm can recognize.
- **Unique:** you could not apply your vision to your competitors or to the local coffee shop.
- **Stretching:** “I will go to work most days” is not a great vision. “I will conquer the known world by the age of 30” is a bit more stretching: step forward Alexander the Great.
- **Simple:** if no one can remember it, no one can act on it.
- **Immediate:** you have to act on the vision now and know when you have gotten there.

- **Actionable:** each person in the firm must know what it means for them, and the firm must know how the vision will affect investment, decision making, measurements, and rewards.

How Russian is the vision for your firm and your team?

MERGERS AND ACQUISITIONS

For the past 30 years at least, academic studies have shown that most acquisitions destroy value for the shareholders of the acquiring firm. The only winners are the shareholders of the acquired firm who typically enjoy a 40% bid premium on the shares they sell.

For CEOs, M&A activity is very attractive: it shows that you are doing something dramatic, it allows you to tell a story and it is quicker and easier than the grind of building the business organically. It also gives you a larger empire to run. For investment banks, M&A activity means fees for the acquirer and for the defense; fees for negotiating the funding; fees for then breaking up the merger and sorting out the financial mess five years later.

There are essentially three sorts of acquisition:

- The unrelated acquisition where the financial plays succeed in the medium term but few survive long term: the acquired company has little or nothing in common with the holding company. The acquirers used to be conglomerates like ITT or Hanson; nowadays they are likely to be private equity firms. In each case, the message is that the acquirer has found a superior way of managing any sort of firm. In practice, it relies on financial engineering (conglomerates) and large amounts of leverage (private equity). When times are good, profits rise and the acquirers look like geniuses. When recession hits and profits fall, they discover the dark side of leverage, which can be very dark indeed.
- The fill-in acquisition where the acquisitions become very expensive: this is designed to fill in a hole in a firm's technology, capability, or market coverage. IBM has been buying dozens of mid-scale firms for precisely this reason: building a portfolio of competences fast. Arguably, it is cheaper to buy a market tested competence than try to build it internally. However, since every other major technology player has had the same idea, you will pay a high premium for your acquisitions.
- The scale acquisition, in industries where you face a simple choice: you can be predator or prey. "Economies of scale" are the holy grail of many acquisitions. The scale acquisition works in two ways. Internally, it enables the

firm to reduce unit costs: you reduce staffing levels, and reduce infrastructure spend on IT, facilities, factories, and the supply chain. Externally, it enables the firm to increase market dominance over both suppliers (by forcing them to reduce prices) and customers (removing market capacity and competition enables prices to rise). Inevitably, regulators become very interested when the scale acquisition leads to excess market dominance. Retailing banking for the past 30 years has been swamped by scale driven M&As, with huge savings to be made in people, property, and IT.

The fatal flaw with most acquisitions is that the acquirer pays too much for the acquisition. The logic of the deal may be right, but the price is often wrong. This happens because the thrill of the hunt overwhelms any logic. Investment bankers will be whispering in your ear, "Dare to be great." The media will portray it as a hunt: you either get your kill or you have failed as a CEO.

The only known antidote to the madness of the hunt is a used envelope. On the back of it, work out the maximum you are prepared to pay for the target, with all the economies of scale. Do this before the hunt starts. Then keep the envelope in your pocket. If you are invited to pay too much, refer to your envelope and walk away. Ignore all the clever arguments of advisers who will always find ways of justifying an ever higher price: a used envelope has more integrity and impartiality than your highly paid advisers. And it costs less.

HOW TO BE INNOVATIVE

All firms and clients say they like innovation. They lie. They like the results of successful innovation, which may lead to a source of unfair competitive advantage. But they hate the process of innovation. Next time you are asked to innovate, ask in return if your managers enjoy risk, ambiguity, uncertainty, expense, and failure. Then you will find out how much firms really want innovation. Innovation is fine as long as it is tried, tested and bound to succeed.

Fortunately, you do not have to discover the successor to the wheel to innovate. Nor do you have to endure sessions with your "creatives." Here is how you can find an innovative idea:

1 Copy an idea, especially from abroad. The low-cost carrier model was developed by SouthWest Airlines in the USA and its success was obvious. It took 10 years before Ryanair and easyJet copied the model into Europe with devastating results.

2 Find a solution for a customer problem.

- 3 Listen to your customers.** The useful ones are either the heavy users, or the awkward squad who are always complaining. They are the ones who will have the ideas and insights about what the market really needs. See if you can deliver it profitably.
- 4 Spend a day in the life of your customer.** See what they world looks like from their end as they try to use your product or service. It can be a humbling experience, but profitable. Take it further and co-create the new service with your client.
- 5 Find a market failure and do something about it.** As a middle market company, I found banks overcharging me on prices, being inefficient, and selling awful products. That was great news: I set up a bank which was slightly less bad and it took off. Don't get mad, get even.

Finding the idea is perhaps 10% of the battle. The real battle is internal: making sure that you have the support and commitment of the organization to make the idea happen.

THE LANGUAGE OF STRATEGY

Some managers love to throw around strategic words to make themselves and their ideas sound impressive. In practice, when a manager says something is "strategic" they mean it is important, but perhaps only to themselves. Here are some of the most common concepts, what they mean and how you can use them.

STRATEGIC INTENT Normally used as a way of making a goal sound impressive. As used in practice by the late C.K. Prahalad (who came up with the term) it was a way of stretching the organization and daring managers to achieve things which would force business *not* as usual. The intellectual integrity of the idea is weak, but the stories used to illustrate the idea are inspirational.

CORE COMPETENCE This is generally used to refer to anything we think we might be good at doing. This also came from C.K. Prahalad, and is more inspirational than practical.

CO-CREATION This is a Venkat Ramaswamy concept and gets very complicated very fast. At its simplest, it means we want to work with our customers a bit more, especially by involving them in product development. Many great ideas come from users, so it makes sense to listen to them and work with them.

It is much more than “giving customers control,” which is a euphemism for cutting out your help desk and giving your customers a web link instead.

BLUE OCEAN, RED OCEAN Brought to us courtesy of Chan Kim. The basic arguments are simple: try to compete in uncompleted territory (easier for start-ups than for legacy businesses). Second, draw a value curve of what customers really want, and then re-engineer your product to focus on that and nothing else. This often leads to the birdie strategy (birds go cheep cheep and this strategy often leads to going cheap cheap).

REENGINEERING More of an operational play than a true strategy. Originally it meant working out what the customer really wanted and then reorganizing the processes of the organization to deliver that well. It was a revolution because it made people look at a horizontal view of the organization (processes) not the old vertical view (functional silos). It has now become a short-hand for cost cutting which ignores the customer completely.

VALUE PROPOSITION At its simplest, this means giving customers what they want at a price they want. This leads to value curves: map the value customers want versus what you give and what competitors give. Analyze the value curve to do some value engineering: cut out what customers do not want and reduce your costs, while focusing on what customers most want.

PORTFOLIO STRATEGY AND MANAGEMENT Work out which businesses or products you want to exit, stay in, build, and grow. Ultimately, the portfolio strategy should enable the firm to achieve a balance of cash producing and cash consuming (but growing) businesses. In practice, very few managers ever do a portfolio strategy and when they do, they get bogged down in definitions of the market, relative growth, and relative share.

COMPETITIVE ADVANTAGE, DIFFERENTIATION Listen carefully when people talk about this. Often they refer to very weak advantages (“we are a penny cheaper; our packaging is nicer...”). These are weak advantages because they are easy to copy. To be relevant, your competitive advantage should be thoroughly unfair, that means it has to be:

your competitive advantage should be thoroughly unfair

- **Sustainable:** price cuts are often not sustainable.
- **Hard to copy:** copying a financial product takes minutes; copying a patent or a copyright leads straight to court. Copying Microsoft’s near monopoly on desktop operating systems is not easy.

GO TO MARKET STRATEGY This means more or less what people want it to mean. It can refer to your firm's:

- **Overall strategy:** how will we deploy our assets and capabilities to achieve our goals?
- **Marketing strategy:** which customers will we target, through which channels, at what price, and how will we position our product relative to competition?
- **Channel strategy:** we know our product and our target customer, but how will we reach them in terms of sales, advertising, and the route to market (which channels of distribution will we use)?

BUSINESS START-UPS

You need to decide if running a business is for you. Here is what to expect.

Before you start, people will tell you it won't work. When you start, they will tell you it isn't a real business. Finally, when you are in your private jet and they are negotiating their 10% pay raise, they will tell you that you were lucky and that they were absolutely central to your success. As you build the business you will find about 50 people who believe that they each deserve 10% of the equity for their help, for their advice, and for the introductions they made for you. And then they wonder why entrepreneurs can be arrogant.

Moving from salaried security to insecure start-up is a one-way leap: you can never go back. Once you have tasted the joys and hell of freedom you cannot return to the gilded cage of employment. You may work longer and for less money, but psychologically you will find it impossible to work for someone else. At least on your own, your triumphs and disasters are all your own.

The leap is huge. You are not just changing employment: you are changing your identity. You no longer get the kudos from saying, "I am the big chief at MegaCorp." You are your business: failure is not just a business failure, it is failure of your dreams and identity. This is hard in a way that business school can never prepare you for. You discover that if your computer goes down, it is a disaster and no one is there to save the day for you. Cash flow is not a few lines on the monthly report: it is the difference between paying the bills and going bankrupt. Weekends and holidays are a luxury that salaried colleagues enjoy and you do not. But, if this is what you want, then go for it. The ride is exciting, exhilarating, and exhausting. And you will never turn back.

Second, you need to know how to go about it. Again, business schools are too sophisticated in their approach. In practice, I have followed a simple model with each business I have started: IPM. IPM stands for ideas, people, money. You

need them in that order: ideas first, then people, and finally money. It tends to go wrong when people start with the money (“I want \$10 million in five years”) and work back from that. Everyone starts to argue over a pot of money which does not exist, instead of building the business. Here is IPM in more detail:

I: IDEA You need a great idea which you believe in 100%. It can be as simple as “there is no hairstylist in this town (and I like styling hair)” through to the most ambitious of global start-ups. Be very clear about why your idea will:

- Attract and retain many customers
- Be sustainably competitive
- Make money: the economics should be robust

Don't be afraid to discuss your “secret” idea with other people. In practice, no one else is likely to have the energy and motivation to take the leap you propose, and they will not understand the full scope of your idea anyway. As you discuss the idea, they will raise many objections. Good ideas simply get stronger as a result of overcoming each objection. As you share your idea, you will also find some people who could be very good partners for you. You are doing soft recruiting for your new venture.

Be ambitious with your idea. The more ambitious it is, the more likely you are to attract great talent. Which leads to the well worn motto: “Think big, start small, scale fast.” When you start, you may start as a small business, but be clear about how you will realize its full potential and become a big business.

At this stage, it makes sense to develop your idea from the safety of your current employer. Regular income is a wonderful thing to have.

P: PEOPLE A sole trader business is a lifestyle business. It is often hard to sustain for long. To succeed, you need to have a great team around you. Pick people who complement your skills: they should be different from you in terms of both skills and styles. Not everyone wants to do accounting, or sales, or IT: find those skills. And if you only hire extroverts, your office will have all the order of a chimpanzees’ tea party. If you hire only introverts, your office will be like a library echoing to the sound of silence.

Recognize that you will probably have to turn your team over as the business grows. People who enjoy start-ups enjoy the buzz, freedom, and creativity that goes with them. These are not people who like the order, structure, systems, and discipline of a larger organization.

M: MONEY A good idea beats the dull weight of money every time. And if you have a great idea and great people, you will find the money. If you lack the idea or the people, then you will never get the money. The idea and the people always have to come first.

***a good idea
beats the dull
weight of
money every
time***

Fortunately, there are many sources of funding for you to tap: venture capitalists, banks, exorbitant credit cards, your own piggy bank, angel investors (who can turn into devils), unsuspecting relatives, and of course customers and suppliers if you manage your cash flow properly. If you have great people, you will work the money out. And you will probably have a few financial near-death experiences along the way. In years to come, they will be the war stories you fondly remember.

Finally, remember that equity is everything. Everyone will want a slice of your action. Don't give it. It's your business, so keep it that way.

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