

Strategy for Dummies, notes

K Advisers Oy

Copyright © K Advisers Oy 2017. All rights reserved. No part of this document may be reproduced, distributed, stored in a retrieval system or translated into any language, in any form or by any means, electronic, mechanical, magnetic, optical, photocopying, manual or otherwise, without the prior written permission of K Advisers Oy.

K Advisers Oy is consulting company specialised in strategy and business planning, international operations and product management/marketing. More information from <http://www.k-advisers.com> or by email info@k-advisers.com.

Date	Changes	Author	Approved
28.8.2017	Initial version	TKa	TKa
3.3.2017	Version 2, commented by PH	TKa	TKa
7.9.2017	Version 3, commented by PK	TKa	TKa
11.9.2017	Version 3.1, commented by PK	TKa	TKa
3.12.2017	Version 3.2, some typos corrected	TKa	TKa

Table of Contents

1. Some comments for the readers.....	4
2. Practical theory.....	4
3. Strategy for the small Dummies.....	5
4. The Growth.....	7
5. Generation change.....	9
5.1. Recognise the goals of the entrepreneur.....	9
5.2. The expectations of the other stakeholders.....	9
5.3. Valuation.....	9
5.4. The plan.....	9
6. Funding.....	10

1. Some comments for the readers

Strategy and business management are quite general, it won't look your line of business. In last hundred years there have been very small amount of changes, however there is a one new megatrend which is currently affecting to the market place heavily. In any case size matters, small player can't be dominant in the markets.

In Finland there are around 350 000 private companies (excluding the agriculture). The key point is that there are micro companies around 120 000. Still all of the literature and other information are based on needs of big companies. Even our Government and other regulators are working in a mode that we have corporations only, that figure is less that 600. (statistics from Statistics Finland)

Focus in these notes are in the micro companies.

2. Practical theory

Three terms are linked together: mission, vision and strategy. These three words define one's business totally. Those should be understood by everyone in the company, from top management down to the floor level. It should be the bread and butter of the whole value chain inside the company and everyone should understand what their contribution is to fulfil the mission of the company.

Mission defines why the company exists, what is the great purpose for its existence. The biggest mistake is that it has to deliver cash. No, it has to deliver something valuable to the customers, hopefully something unique or in a unique way. The side effect of this is the received money. This defines your long term customer promise.

The next step is to define our short term goal, a vision, typically for two years. You should ask yourself: "Where do I want to be?". This goal describes what we are and where we will be successful. Vision should be concrete and measurable. Otherwise it is not real and it is difficult to communicate. Although it is defined for two years, the review should be done after a year, for the next two years. So it is a goal that you never reach, a wet dream.

You have found your target and the path. Now you have find out your route to the target, a strategy. Strategy describes what will you do and especially what you don't do to reach your vision. It is a way to get competitive advantages and it can make you a winner.

Why we exist? What and where we want to be? How do we get there? Simple!



Figure 1: Strategy space in La Défense, Paris

Sounds simple, but then there are some things which can be defined as a strategical variables. They define our business environment all of the time. Some of these are:

- megatrends, for example the change in consumer behaviour
- does your industry have organic growth or is it declining
- customers, those little buggers who are changing their requirements all of the time
- competitors, those big devils who are disturbing your business, continuously
- regulators, changing and controlling the game rules

All of these will affect your planning and you have to be sensitive to recognise these changes. Only one thing is guaranteed, change.

3. Strategy for the small Dummies

For example over 60% of the companies who are members of Federation of Finnish enterprises in Helsinki are one person shows. They are barbers and plumbers, doing very basic work, important but not so sexy. The growing part of these one person companies are the specialists. Very highly educated persons specialised to the certain niche and selling his/hers special know-how. Obviously one of the megatrends is the change in our working environment, we are moving towards self-employment. It is said that the old prototype of entrepreneur was a man over 50 years old and Toyota Hiace, today it is a woman under 40's and a laptop. One of the key questions is that are we ready for this? Does our social environment support this?

Are the one person companies having a sleepless nights when they are thinking of megatrends? Not really. Their issues are much more basic, like:

- what is the legal format of the company?
- what kind of premises I need and where they should be located?
- how I'll organise the bookkeeping?
- what kind of investments needs to be done?
- how I'll fund the starting phase of the company?
- from where I'll found the 1st customers?

Then comes the 1st steps to the strategical thinking. There are some basic questions and answers to them which should drive the company. These are:

- who are our customers?
- who are our competitors?
- why are we better?
- what is our USP (=unique selling point)?
- is our message clear enough?
- how digital economy affects on us and how we prepare ourselves for it?

Keeping these six basic questions in your mind the company should deliver. Then comes the next step, the growth. The 1st decision is that do I target for it. If yes, that is a different story.



Figure 2: The real business in Nauvo

4. The Growth

The organic growth happens only for the limited time, Life for the company is quite easy during the organic growth, in theory. The continuous growth can develop some sloppy behaviour in decision making inside the organisation. The company may suffer later on of it. Bad decision made during the growth may cause high penalties in the future. The war really begins when the markets will saturate.

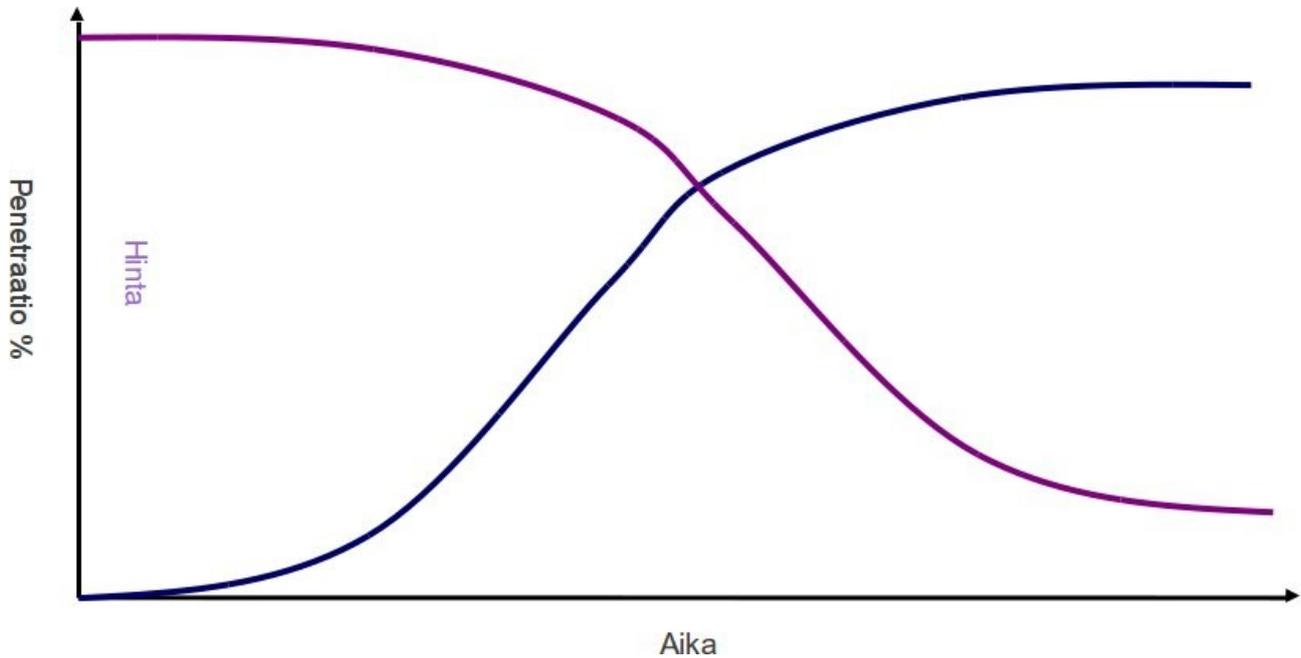


Figure 3: Product life cycle versus pricing (violet curve)

In any cases growth means also investments. Additional resources are required, for example entrepreneur has only 24 hours per day (and lunch hour). Recruiting new staff is a major risk for the one man show. Next picture contains an example of recruiting.

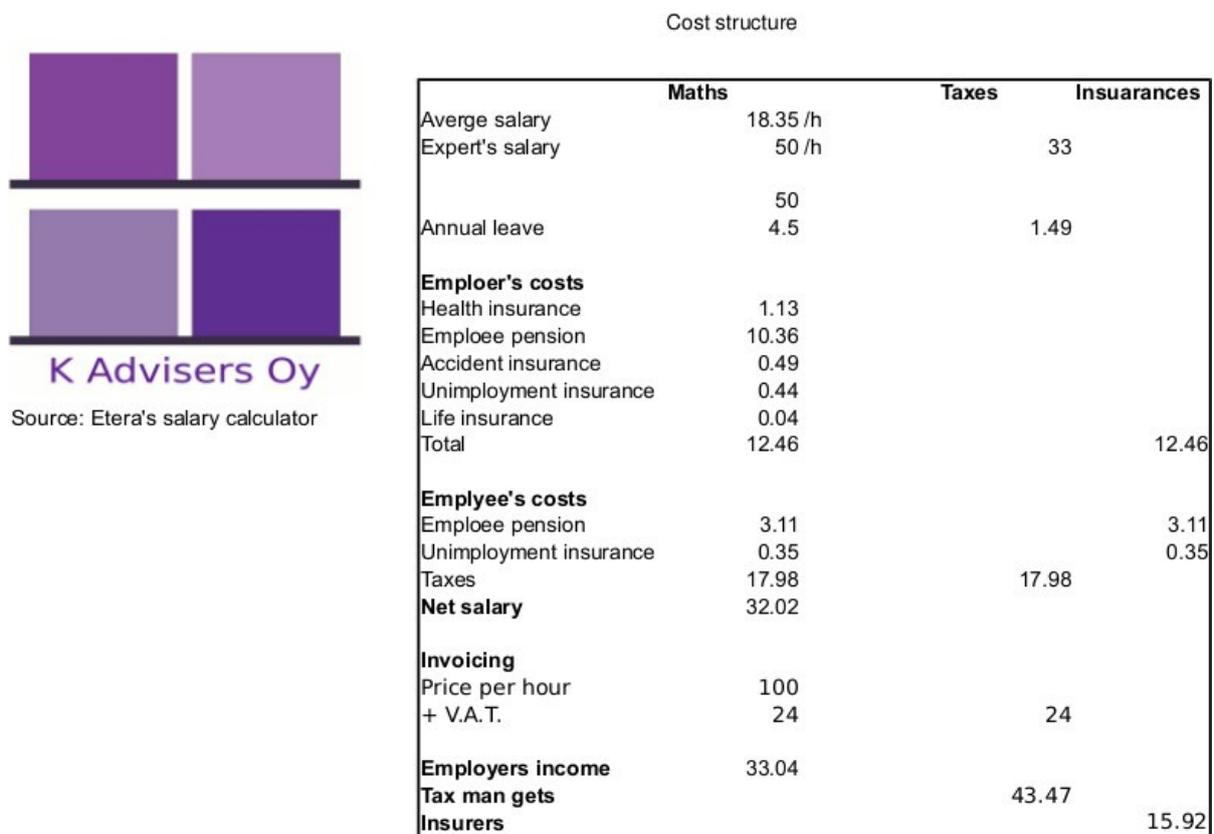


Figure 4: Costs and side costs of the new employee

The key message is that if you recruit someone and his/hers salary is 50€/h and you invoice 100€/h (plus V.A.T. 24%) your income is 33€ per hour. Hopefully the load of the employee closes 100% and no other investments are required, like tools, changes in premises etc.

This means that because the recruiting is a big cost and risk one man show has to be creative. Typical solutions are:

- subcontracting
- partnering (with your competitor)
- team entrepreneurship

Few words about team entrepreneurship. It has been here a long time only a a terminology it is quite new. It means that two or more companies are working under the one name/brand and the customer sees only one name/brand. It can be used to staff the project. More advanced usage is to expand the brand's offering. Some key issues of the team entrepreneurship:

- the contract between the team, done before the 1st offer
- the story when you use the team for extended offering

5. Generation change

Entrepreneur don't live for ever and the exit day will come. Generation change or the sale of the one-man-show is very difficult, especially if it is a expert services. If it is selling tangible goods it is easier. Otherwise the brand value of the expert has to be very high. It is also very important to understand the time requirements for this process, one year is a short time.

5.1. Recognise the goals of the entrepreneur

All of the stakeholders are having expectations for the situation which needs to be recognised and understood. Entrepreneur is thinking:

- what kind of pension sale of the company delivers. Typically the expectations are higher than the truth
- does he/she want to own the minority of the company
- generally, what is the legacy generated by the company, for example current values compared to the new owners values

5.2. The expectations of the other stakeholders

There are also other stakeholders, like family, other (minority) owners and (key) personnel, which expectations needs to be understood and respected.

5.3. Valuation

For the private company the valuation is always a big challenge. There are a lot of in-built very emotional assumptions of the value of the company. At the end of the day, valuation is quite brutal, straight forward calculation. Some standard methods to do the valuation are:

- income value, based on gross margin
- current value which is based on the future income expectations
- net asset value, based on balance sheet (the easiest way)
- comparison price, based on the similar type of company sales

At this stage it is very highly recommended that external expert is used to this process. Anyway the correct price is always the price when seller and buyer are happy.

5.4. The plan

The plan should contain at least these items:

- cleaning up the balance sheet
- how to change the management
- does the change contain financial incentives to the key personnel

- what is the goal?
- what is the method to reach it? MBO? Business sale? Company sale?

If it is a generation inside the family, by tax planning can save a lots of money. It is also important to know that the tax man valuates your company with their standard method which is based on the financial success in the history. Due to this fact, expert is very highly recommended.

6. Funding

Company might need external funding from time-to-time, for example working capital. For the one one man show it is a challenge. Usually the 1st possibilities are **owners own pocket** or **a bank**. Obviously when operating with the banks the securities has to be under control, nowadays even over dimensioned.

There are some public funding available from the different governmental organisations. They are **Centre for Economic Development, Transport and the Environment (ELY)**, **TE-services**, **Finnvera** and **TEKES**. All of them has a different targets but one common goal is the exports which should be seen in your application (recommendation).

Typically **ELY/TE** support is used to development of the company, its products and services. By default it is so called de minimis-support which means that if company has previously received de minimis-support it will reduce the new support. Maximum is 15000€ which can be used for external experts, but not for the internal salary costs.

Finnvera has different tools, for example it can give guarantees to your bank loans. One important service is that they might fund/participate to the generation change.

TEKES has quite many tools from product development to exports.

When company is planning for strategical movement, some kind of expansion for expansion new product, new market areas, recruiting etc. there comes one private possibility, **FIBAN**, Finnish business angels association. They might do the investment if your story and plans are very good. Typically they could buy company shares and participate to company governance as a director of the board. Usually it is very good for the company to have a external view of its business.

One quite new option is **the crowd funding**. The principle of it is quite simple. Small investments are collected from the public. Sums are typically small ones but when the crowd is big, the investment grows. This type of funding is not limited to the companies only, it can be used by cultural organisations for example. There are different types of crowd funding: reward-base, equity etc.

This type of funding is very popular among the start-ups. It is not only for the start-ups, even older companies can use it. It is normally used for the new service/product development and the risk factor can be higher than normally.



Figure 5: Money talks, BS walks

Because the funding markets in Finland are not so well developed in this this area there are players which are not so nice, basically they try to milk everything out from the companies using their services. If you are operating this type of player, read the small print in the contract carefully and at least three times.