

# SURE-FIRE STEPS

to

## Small Business Success

GRAHAM KENNY



### Take Out:

- why “strategy” drives small business success *and* failure
- a clear and simple definition of strategy
- the beginnings of a system to develop strategy for *your* small business.

As I write, two popular programs are doing the rounds – *Super Nanny USA* and *Nanny 911*. And they’re wonderfully relevant to small business.

They show households in chaos with children running amok, parents sleeping on couches while the children enjoy the main bed, untidiness in all rooms, parents without time for themselves, no one getting a good night’s sleep – dysfunction all around. Marvellous. *Marvellous* because it serves to emphasise our general lack of preparedness for many of the important things that we’re expected to do. The fact that we were once children doesn’t qualify us to be *good* parents. The reality that we’ve only ever closely observed one set of parents, or one parent in a single parent family, disqualifies us from being *expert* parents. Yet parents we become and households often underperform. As a mother observed in one of the programs, “It’s not that we’re bad parents, it’s that we’re clueless parents”.

Small businesses have many similarities. Their managers learn as they go. There’s usually no career path in the business, but the owner and manager – usually the same person – starts or buys a business and *then* works out how to run it. It’s trial and error. Chefs open restaurants and find that while they’re good cooks and have worked *in* a restaurant, they don’t know how to run one successfully – to work *on* a restaurant. While small business owners are expert cooks, doctors, plumbers, carpenters and dentists, they may be poor managers and, possibly, clueless about strategy.

## SMALL BUSINESS PROBLEMS

As a small business owner myself, I know the problems. And they're numerous – making a profit, achieving a positive cash flow, generating new business, motivating staff. The list seems endless. But sitting on top of the pile, as in any military campaign, is the problem of developing strategy. What, precisely, I hear you say, is “strategy”?

How can something so fundamental be so confused and confusing? And is this a serious problem?

Yes, it is *very* serious, because it leads to numerous business failures. Understanding strategy and the way to build a competitive edge is the key to business success. Without this, everything else we do in our business is, well, a waste of time.

## STRATEGY SCEPTICS

One of the activities in my business is conducting public seminars on strategic planning. Prior to commencement, we send out a Learning Needs Sheet to each registered delegate. One response came from a manager who headed up an independent residential college within a university. It is a small business within a large one.

He wrote, somewhat tongue in cheek, that he'd attend the seminar if I didn't mention the words “strategy” or “strategic”. That's a bit difficult if you're conducting a public seminar on strategic planning! He continued: “Over the years strategic planning has been taken and clouded with mystery. We now need an industry to unravel the mystery.”

His remarks illustrated for me the burnout that many managers feel in relation to strategy. They further pointed to the need to use as few terms as possible and define them clearly.

*So what is strategy?*

### TRY THIS:

Write down *your* definition of strategy.

## COMPETITIVE STRATEGY

Because “strategy” is used in such a variety of contexts, we prefer to proceed it by the adjective “competitive” – to make sure others know we're referring to achieving a *competitive* advantage. A strategy, therefore, is a description of how a business is to achieve its competitive advantage.

Take your local convenience store, for example. One of its strategies might be stated this way: offer free home delivery of purchases in excess of \$50. If this service is not provided by the store's competitors, and if customers value it, then presto! The convenience store has developed a competitive advantage. Increased business should follow.

But let's not confine ourselves to our local convenience store. Take McDonald's, a multinational organisation made up of thousands of small businesses. McDonald's phenomenal success, in terms of both growth and profit, lies partly in the growth mechanism employed: franchising. But no organisation can continue to franchise an unsuccessful business. McDonald's success is also due partly to its production system, which guarantees consistency. But again, you can't sell food that people don't want to eat, no matter how reliably it's produced. No, the fundamental reason McDonald's has succeeded has been its *competitive strategy*.

Ray Kroc, McDonald's CEO through its early growth years, is quoted in *In Search of Excellence* as saying: “If I had a brick for every time I've repeated the phrase Q.S.C. & V. (Quality, Service, Cleanliness and Value), I think I'd probably be able to bridge the Atlantic Ocean with them.”<sup>1</sup> While the book was published more than 20 years ago, these factors are still drivers today. All employee training focuses on them and all franchisees are assessed on them.

We see McDonald's competitive strategy at work in its response to its recent – and rare – growth-and-profit hiccup. It occurred in 2002. By this time, McDonald's had 30,000 restaurants in more than 100 countries, with 1.6 million store employees serving 47 million customers every day. Yet, after more than 35 years of non-stop growth since its stockmarket float in 1965, results faltered. Between 1997 and 2003, its share of the fast food market fell by three per cent. The board was forced to concede that it had a problem and replaced its CEO.

The new chief, Jim Cantalupo, who had previously held the position, re-focused the business and came back to basics. The strategy implemented was to improve product quality, which had slipped; ratchet up customer service; lift store presentation by restoring cleanliness; and introduce new product lines: McCafe and Salads Plus, for example. The result for 2003 was a profit close to \$US1.5 billion, with global sales increasing by nearly 11 per cent over the previous year. By the early part of 2004, sales growth had leapt by 24 per cent over the 2002 level. As a result, McDonald's share price doubled from 2002 to 2004.

If McDonald's can do it, so can you.

### ***BILL'S JOURNEY: Spot the difference***

*Bill's Journey* is designed to show you, the reader, how one small business owner tackled each of the *Try This* challenges.

Bill and a partner own a small printing business. *Bill's Journey* helps us understand the thought processes of a small business owner. Bill independently worked through all of the *Try This* sections in this book, and these interviews, which took place over a period of time, are a follow-up to that work he undertook.

*Graham.* Bill, I thought we might start with some information about your business. Can you give us a feel for it? When did it start?

*Bill.* It started as a small gold foil stamping business in 1975 in Manly. We had a sign up saying 'personalised printing'. What we meant was that we stamped names on things, but people kept coming up and asking us about printing. So I thought I might get a printing machine. I bought a little machine, something like a Gestetner. That only lasted about two months because it just couldn't handle the volume. Then I bought my first real press, an AB Dick, which dealt with 20,000 sheets. That's how it started, something small, which we changed completely, moving into bigger jobs.

G. Tell me more about 'gold foil printing'?

*B.* Gold foil *stamping*. We used to do things like putting kids' names in gold foil on pencils and gold-foil initials on playing cards. Just sort of gifty or junky little things. It was okay, although it was never going to make any money. But people started asking for bigger jobs. In fact the first guy who came to me was the owner of that Mexican place at Manly, remember that? He rang up and asked if we could do placemats. Even though we had just a tiny machine then. I said, 'yeah, yeah, I can print those. How many do you want?' He replied, '10,000'. Two days later I went out and bought a bigger machine.

G. How many people did you have then?

*B.* There was only me.

G. Just you.

*B.* Yes, it was at Manly, where the Ford place is. Only a tiny little shop, a hole in the wall. The people next to us were *Kitchen Aid*, a big kitchen showroom place. I asked them if they'd be interested in letting out half of their shop. They were. So we took the bigger shop and were there for 21 years.

G. So what does your business do now?

B. The major part of it is colour copying, digital work. We got rid of our offset presses and we farm it out now – outsource all that. The colour copying is probably the major part of our work, nearly 50 per cent of it.

G. How many staff do you have now?

B. There are only three of us full time, plus another for three days a week. We're a bit stretched and probably should have somebody else.

G. And the annual sales?

B. Sales are around \$700,000 a year.

G. Okay, good.

B. It's got a fairly high gross margin.

G. Now I'm interested in going through the *Try This* section, which you've completed for each of the chapters. The first one here is, "Write down your old definition of strategy". Did you try that?

B. No I didn't. Probably because that part of the book confused me more than any other. Trying to work out what it is – I don't know what my strategy is. I think that's why I got into the other sections because I could actually answer them. When it came to writing down my definition of strategy, I found I'm not sure if I really have one. I just thought: I don't know what strategy is.

G. Okay, well, was there anything in Chapter 1 that was a surprise? Was it useful in any way?

B. The definition in the book of competitive strategy was completely different from what I had in the back of my head. It wasn't until I got further into it, when I started to write things down and do an exercise, that I really understood what competitive strategy is. Probably staying alive was my

main strategy! I wasn't getting into *competitive* strategy. I think I was more concerned with things like, you know, 'I've got to get more sales' or 'I've got to improve on this and this'. I didn't think about how anybody else saw me or anything like that. My strategy was just keeping the business going. Which is not really competitive strategy.

G. That's very interesting. I think it's probably a problem for a lot of people. You were thinking of strategy as a goal for the business, the end-result for the business, rather than what I wrote: *Competitive strategy is about developing competitive advantage*. In fact the definition on an earlier page is: "A statement of how a business is to achieve its competitive advantage". So that was definitely a different view from the one you had, wasn't it?

B. Yeah, mine was more a goal – just staying alive, keeping going, doing what I had to do. When I got into the other sections and when I really started to answer those questions, that was very interesting. I thought, 'Oh, I like this stuff, because it's showing me what to do'.

G. So, Bill, when we come down to Question 3, "Note the differences", you could say that whereas you thought of strategy as a goal, an objective, an end result, I'm defining it as *how* to achieve that result through the business.

B. That's right. They are two different things, completely different things.

G. Now the fourth challenge is "Reflect on how this might affect the development of your business' strategies and the achievement of a competitive advantage". Here, I'm thinking that if you or anyone like you hasn't got a clear definition of competitive strategy, how do you then develop a competitive advantage? How do you move from strategy as an end result to what you're going to do Monday to Friday? Is there something missing, do you think?



---

# P R E F A C E

---

I've been itching to write a strategy book for small business for many years, but other projects seemed to get in the way.

Among these was my first book, *Strategic Factors: Develop and Measure Winning Strategy*.<sup>1</sup> While not excluding small business, it had to span small and large businesses, business units, not-for-profit organisations and government departments. In writing such a book you're always conscious of the need to cover a wide audience.

This book, instead, goes straight to the needs of small businesses, which are invariably owner-managed. The narrower audience has allowed me to be more direct and less formal.

While showing how to achieve competitive advantage, the book doesn't try to cover all topics in this area. For instance, it doesn't specifically deal with acquisitions, since few small business owners grow by buying other businesses, but rather by expanding their own.

My aim is to describe, as simply as possible, the essential ingredients of strategy for small business. I hope it drives your performance onto greater success.

Graham Kenny  
Strategic Factors  
PO Box 702  
Mosman NSW 2088  
Australia  
Fax: (Sydney) 612 9969 2596  
E-mail: [gkenny@strategicfactors.com](mailto:gkenny@strategicfactors.com)  
Website: [www.strategicfactors.com](http://www.strategicfactors.com)

---

<sup>1</sup> Kenny, G. 2001. *Strategic factors: Develop and measure winning strategy*. Sydney: President Press; republished in 2005 as *Strategic planning and performance management*. Oxford: Elsevier Butterworth-Heinemann.