

Put FIBER In Your Decision-making Diet

By K.C. Cerny



MOST CENTRAL TEXAS executives are familiar with qualitative strategic planning for their business. Actually, you do it every day. It's the process of 1) building awareness of events and conditions, 2) picking directions for actions, and 3) setting timelines to achieve your business goals.

This process can produce successful strategies providing that a "more or less" approach is sufficiently detailed to meet your company's needs. You know how it works: "I need more sales in San Antonio. We can blunt the competition by demonstrating our new features and we need to see results in Q3."

But when a company needs greater decision-making precision, and when it is important to know as an outcome of your strategic plan that sales of product line X should increase by 55 percent within two years, then you really must move into quantitative strategic planning.

Quantitative strategic planning is not just about effective data analysis. Oh?

It is really about incorporating quantitative information into your decision making process before you take action. The keys to incorporating quantitative information into your strategic decisions are to ensure 1) that data analysis is highly targeted, 2) that it is aggregated to high enough levels to have company-wide or market-wide impact, and 3) that it be understandable. Make sure you understand your reports. If you don't, change them.

BEGIN A NEW HABIT

Start with customer segmentation. Every business can produce a list of its customers for the last three to five years. Yet, not every business can say with statistical certainty what factors distinguish customers who increased their purchases

in each of the last three years (good customers) from those whose purchases dropped steadily (marginal customers). Is it geography? Is it a particular product line? Most competitive pricing? Size? A particular account manager? Or is it combinations of these and other factors? Every now and then a single factor provides most of the explanatory power. This is unusual.

In the real world, relationships are messy. Now that's an understatement. But here's the good news; good data analysis provides you with a clearer picture of the different classes of customers who generate the bulk of your sales and gross margins.

Good data analysis can also provide a clear picture of the flip side—classes of customers whose expenses exceed their purchases. The questions you need to ask and answer are identical whether you are in a business-to-business (B2B) or a business-to-consumer (B2C) industry. And these questions are the same whether you are in a manufacturing, retail or service sector.

The next area to evaluate is your markets. How large are they? Which are growing and which are declining—and by how much annually? How competitive are your products in terms of market share, price, reliability, service and other factors that drive sales?

While qualitative answers are usually in your head, quantitative answers are better. Why? Quantitative answers to these questions allow you and your senior executive team to set performance benchmarks for the company as part of the strategic planning process.

Finally, look at your company's ability to execute reliably. Examples of measures include time to market for a new product, customer complaints and lawsuits, yield, defects, profitability and occupancy. Every industry has a short

list of key factors 1) that are measurable, 2) for which benchmarks exist, and 3) are intimately tied to operational performance.

The point is that you and your executive team might want to think twice before choosing to stake the company's future on what you think is an attractive, profitable product that is associated with an unusually high share of customer complaints.

HOW YOU ADD THE "FIBER"

As you drive to and from work, you can see by who's running and cycling, that successful executives tend to create a healthy lifestyle. You wouldn't wait until your company is on life support to take a serious look at what's driving your business. So, don't wait until you install a new integrated information system to add quantitative data analysis to your strategic decisions.

The key is for you and your team to determine which elements best describe the complex system in which your company operates. That list then forms the basis for your data analysis projects. Here's where you start adding the fiber: decide who will analyze your data.

External information on key factors is generally available from a large number of private vendors and trade associations. You may take for granted how much data you see in e-mail updates and summaries from industry publications. Your analytical team will determine what type of statistical tests better enable your executive team to know with some level of confidence that customer type X really is different from customer type Y.

PLAN TO STAY FIT

Every company supports some level of data analysis. Today, dashboards have become common tools to measure progress towards specific goals. Your challenge is to incorporate data analysis into true strategic planning—regularly. Once you decide to produce a product or service, subsequent data analysis supports tactical planning.

Let's take a second to summarize: effective quantitative strategic planning means that 1) the analysis comes before decision making—decisions are made in the presence of the analysis, 2) the analysis is of a limited number of factors aggregated up to company wide levels, and 3) your executive team is determining which customer types are worth pursuing with which products or services.

Decisions are now made in light of the company's ability to execute as well as market direction and competitive forces. Rather than planning your success by just relying on "more or less," you and your team have the tools to set specific quantitative benchmarks.

Over time this becomes addictive. This is one habit that is good for you and your business health.

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