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Is Your Company *Objective*-Driven… or *Strategy*-Driven?

By Lamont Seckman

Over the years I have found a relatively common confusion exists at the top levels of distributor management in distinguishing between "*strategies*," "*objectives*," and "*tactics*". The conversation typically goes something like this: a management consultant asks a distributor general manager, "What is your company's overall strategy?" The general manager replies, "Our strategy is to grow volume 3-5%." Or perhaps the following: "One of our strategies is to increase the number of merchandisers in chain stores."

The first response, of course, is really an objective – not a strategy. The second response is most likely a tactic. It may be rightly asked whether such distinctions are relevant or just more examples of intellectual game playing by a consultant with too much time on his hands. The answer: they are relevant distinctions and they are increasing in importance all the time.

Through the years, I have had numerous conversations with financiers of various stripes interested in addressing the "financial capital gap" they believe must exist resulting in such a slowed consolidation process. (*Yes, people from the outside believe the consolidation in beer distribution has taken a long time*.) My standard retort has been that shortage of financial capital is not the **issue…the industry's main challenge is a shortage of human capital**. In my opinion, solid top managers capable of running larger beer wholesale combinations are in short supply. And one sure indication of this is the relative lack of clearly defined and effectively implemented business strategies.

Top-Down, Bottom-Up

The beer business has traditionally had a real volume-focused mentality. We have tended to think in terms of units moved, this-year-versus-last. If unit trends are up, things must be good. Units down? Bad. Perhaps this kind of straightforward approach worked in the past. However, the rules of the game are changing and necessitating more advanced notions.

Many managers still use a top-down, numbers-driven approach to annual business planning. In other words, the starting point in the planning process is the determination of total volume growth and/or profit objectives. For example, management may establish a 3% target increase in volume with an operating income of 6% of net sales. These overall objectives for the company are then used in some fashion (hopefully, a logical one) to drive specific objectives by route, by department, etc. Based upon these objectives, the company develops strategies and tactics to be employed to achieve the objectives.

The reverse approach, of course, is a bottom-up, or strategy-driven planning process. For example, in its search for opportunities, management identifies the c-store channel as an underdeveloped account segment with a sales-to-share ratio indicating growth potential. The strategic decision is then made to focus on this channel with some additional resource allocation. Tactics employed to execute this strategy may include an increased service frequency, additional merchandisers, pricing differences, etc. Based upon these decisions, numerical objectives of performance are developed such as shelf space, product mix, volume growth, etc. The numerical objectives derived from the various strategies build-up to comprise overall company performance targets.

Difference Between Approaches

Using the examples provided consider the difference in approaches.

The objective-driven company first decides on targets for volume and returns to sales. It then looks around for growth opportunities to support these targets. Perhaps it finds the c-store channel as such a growth opportunity. The company then makes decisions as to how to grow the c-store channel to fit within its overall objectives.

The strategy-driven company, on the other hand, spends its management talent up front scouring the horizon for opportunities. The c-store channel is identified as underdeveloped. The decision to focus is made. Tactics are developed. Then the performance objectives are arrived at. The logic: opportunity leads to strategy leads to tactics leads to objectives.

Summary

While some may view the differences between the two approaches as subtle, there is a fundamental contrast in the underlying philosophies behind objective-driven and strategy-driven businesses.

Strategy-driven businesses tend to focus more effort and management talent on the behaviors and actions that lead to volume and profit growth They are more interested in questions like: What are the opportunities? Do our strategies fit the market opportunities? And, how well are we executing our strategies?

With the potential failure of identifying key market opportunities, objective-driven businesses are more obsessed with the numbers – where are we compared to last year?

And there's the rub. This-year, last-year comparisons have their place, but they miss elements of company performance. A company executing poorly can still reflect positive trends. While an objective-driven company may interpret such performance as acceptable, its strategy-driven counterpart is not satisified and makes adjustments.

It is more challenging to be strategy-driven because it requires a more thorough understanding of the underlying trends, factors, and behaviors that drive volume and profitability growth. Ongoing measurement of non-volume performance variables is required along with the management capabilities of interpreting and using the information to make organizational and strategic adjustments. Some managers are not prepared or capable of creating strategy-driven organizations.

However, the more complicated nature of the business today demands that larger operations become more strategy-oriented and not so focused on simple measures such as volume trends as the final arbiters of company performance.

Remember, keep your management focused on strategy and execution and the numbers will follow.

Lamont Seckman is a nationally-recognized consultant to the beverage distribution industry. Since 1991, he has worked with hundreds of distributors all over the country on a variety of issues including: sales planning and market development, compensation planning, route logistics, warehouse layout and manpower planning, and business valuations, mergers, and acquisitions. As a noted public speaker, author, and principal in recognized consulting firms, Seckman has been a key contributor to the beverage and food distribution industries over the last decade.

More information on business valuation and profit-enhancement strategies can be found at: www.distributing-company.com

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