November 23, 2009 - Lou De Rose, CMC

Strategy, Tactics, and Small Business

A common criticism of small and not-so-small size companies is that their managements fail to think strategically. It's claimed that they are so immersed in day-to-day tactical considerations, that they fail to develop longer-term strategies, and the tactics, which logically would flow from those strategies. Some may dispute the criticism, but my years of consulting experience in electronics and related industries, where small to medium sized companies prevail, confirms its validity.

To some degree, the failure to accept this criticism may result from a failure to recognize the difference between strategy and tactics. If that's the case, let's clarify the distinction. Both terms – strategy and tactics – stem from military usage. Thus, strategy is the process of planning and directing large-scale operations, as distinguished from tactics, which are the maneuvering of forces into the most advantageous positions prior to actual engagement with the enemy. Putting this into a business context, the distinction lies in the development of longer-term, broadly-based plans (i.e. strategy), as against more current, operational policies, practices, and actions (i.e. tactics). More specifically, that means managements must first set technology, product, market, and competitive objectives. Once those objectives are set, they can then develop and implement effective financing, sales, and pricing measures.

I submit that the global meltdown we have been experiencing over the past 18 to 24 months makes it imperative that managements think more strategically. The consequences of this meltdown are enormous, and likely to impact most dramatically small and midsize companies. This is particularly true for the semiconductor and electronic connectivity industries, where small and medium size companies prevail. According to recently published data, these industries are in the biggest slump in their 50 year history, with revenues falling by more than 20% in this year alone. These problems stem from two developments:

First is the fact that, increasingly, more products and applications now employ embedded microchips. This means that despite the downturn, companies must still expand or reconfigure capacity to meet this changing and exploding demand. Unfortunately, to do so means spending considerable amounts upfront, well before investments can realize profitable returns. And tactical measures cannot address this problem.

Second, and the flip side development, is that these industries have come to depend, increasingly, on how the rest of the economy fares. And given the current economic environment, and particularly, its consumer goods dimension, prospects are not good. To compete in depressed, yet changing markets, consumer goods producers must go, increasingly, "digital". Microchips now find their way into everything from toasters and time pieces to hearing aids and hand-held computers. This rapidly changing technology increases the need for upfront investment, while multiplying the risks of volatile consumer demand.

Third, globalization is here, and it's here to stay. This means that the impact of digitalization and volatile consumer demand is compounded. No longer can producers rely primarily on focus group readings of the “market”, reflecting wants, needs, and preferences of domestic buyers, they must understand and correctly assess those factors globally. Without this focus, notions of competition, product mix, pricing, and inventory management, are woefully distorted.

So what are the strategic implications of these developments? It’s clear that there will be more industry consolidation, resulting in fewer companies, specializing more in product design, while outsourcing manufacturing, packaging, and testing operations. Additionally, it’s clear that these industries will be dominated by Asian-based companies. For small and not-so-small American companies, I would suggest the following strategic and tactical objectives:

- Identify the technologies and market offerings in which you excel, and match them to current and prospective customers with growth potential. Concentrate on companies with design capabilities in leading-edge technology. Don’t try to be all things to all people. Reassess and focus on customers who make the greatest contribution to revenue and profit, and gradually weed out those who don’t pay their way. It’s incredible to me how little time and resources are spent determining how customers rank in terms of short and long-term revenue and profit contribution. In too many cases, poor contributors are bleeding away time, talent, and resources that could be profitably expended elsewhere.

- Once you have established objectives for technology specialization, determining preferred customer mix, bases for competing more effectively, be it globally, regionally, or by industry and application, you are now able to develop tactics. These would address setting financial and budgetary priorities, policies and practices for sourcing, marketing, and pricing, promotional programs, identifying and exploiting opportunities. For dealing with competition from Asian suppliers, address firmly the issues of increasing costs of transportation, documentation, currency fluctuations, difficulty of communication, problems inherent in distance management and oversight. Specifically, understand and sell your advantages in total cost to the customer, other than merely price.

- Lastly and most importantly, diligently seek out and promote prospects for moving up from a small or medium size enterprise to a larger, more diversified or specialized source. Consider merger acquisition, or partnerships. The prospects for surviving, let alone profiting as a small business, are not great. An economic environment of rapid technological change involves, increasingly, demands for large upfront capital investment, with high risk of failure to recoup that investment in the foreseeable future.

This is not a friendly environment for small and not-so-small companies.