Lesson 1 - Strategic Objective

A Strategic Framework
The "Strategy to Win" course is designed to provide a framework for businesses to create a winning strategy. The course is led by instructors Gary Gessel and Kirk Davis, who bring a blend of perspectives to the table.

Instructor Profiles
Gary Gessel has over 40 years of experience as an executive in manufacturing and banking. His roles have included serving as the president of a large window and door manufacturing company and as the CFO of a food processing company.

Kirk Davis has a background in banking, business education, and several years of experience as an executive. Kirk has worked with hundreds of small to medium-sized businesses throughout his career.

Course Overview
This course primarily targets medium-sized and smaller companies competing against larger businesses. It aims to equip these businesses with a strategy to compete successfully against larger counterparts. The promise of the course is a winning strategy that companies can present confidently to their board of directors.

A "Strategy to Win" isn't equivalent to a vision or mission statement. It's a commitment to achieving a certain level of performance, and the company leader's job could hinge on its successful execution.

Strategic Objective: The Foundation
The core of the "Strategy to Win" is the strategic objective. This key component forms the basis for all other aspects of the strategy. A good strategic objective defines what winning means for the company. Unlike goals, which may be multiple, a strategic objective focuses on one primary target. It's a numerically-focused target that the executive team can align with and work towards.

Strategic Objectives and Business Success
Strategic objectives are crucial for achieving business goals and creating a culture of success. These objectives are informed by extensive research, providing a strong foundation of knowledge and increasing the likelihood of accomplishment.

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Understanding and utilizing strategic objectives effectively requires a mental model, particularly for company leaders who are usually action-oriented. This mental model allows for more thorough and thoughtful execution.

The Importance of a Clear Strategy
Often, organizations that rush into action without a clear strategy encounter unforeseen challenges. To prevent this, it's essential to establish a clear strategy first. This strategy provides a framework to manage external influences, reducing the chance of unexpected setbacks.

Strategic objectives may include increasing revenue, share price, or company valuation, and these can be tailored to specific business goals. These targets should be realistically achievable with a high level of certainty. Internal plans should aim slightly higher to account for unexpected events such as global pandemics.

Communication of Strategic Objectives
The communication of strategic objectives should primarily target senior executives. Successful leaders can translate these objectives into actionable tasks for their teams, making them more meaningful and impactful.

Pro Forma Income Statement and Detailed Planning
When creating a pro forma income statement, thinking three years ahead and filling in the gaps accordingly is advisable. This enables detailed planning required to achieve desired goals.

Determining Strategic Priorities
Once the strategic objective is identified, strategic priorities must be determined. These are major action initiatives that move the business forward.

Review and Adjustment of the Strategy
While it's important to stick to the strategic objective, it may be necessary to adjust under certain circumstances such as significant environmental changes. An annual review of the strategy is typically conducted to assess its continued relevance and effectiveness.

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The Strategic Objective as a Key Performance Indicator (KPI)
The strategic objective often culminates in the establishment of a single KPI that aligns with the company's vision. This singular measurement simplifies and aligns the entire organization. It's crucial for executive teams to regularly review whether they are focused on the right strategic objective.

For instance, a CEO might identify a clear strategic objective by continuously asking what the board expects them to achieve. After starting with several different objectives, the expectations could narrow down to achieving top-quartile performance from an earnings standpoint. This objective can then be translated into a strategic metric, such as net income as a percentage of revenue.

Differentiating between a Strategic Objective, a Goal, and a Vision
A strategic objective is more than a goal—it's a commitment with a single measurement. A good strategic objective aligns with the company's vision and defines what winning means to stakeholders. Arguably, having one strategic objective helps focus the organization and uplifts all other metrics within the company.

Action Plan and Projections
As part of the actionable plan, it's recommended that each organization identifies a single number defining its strategic objective. This number, viewed from a three-year perspective, can be adjusted with further research and more information about the organization. The creation of a three-year pro forma that projects the income or loss statement can be supported by the strategic objective.

In cases where a company has multiple business units, each may need a separate strategic objective. If these units share overhead costs, developing individual strategies to win and projections down to the gross profit level could be beneficial. The overall strategic objective should support the larger vision that defines the purpose of the company.

Win with Customers Against the Competition
The "Strategy to Win" course empowers business leaders, especially leaders of small to medium-sized companies, with the tools to compete effectively against larger counterparts. A central aspect of this approach is the formation of a clear strategic objective, which serves as a commitment to achieve a particular level of performance. Unlike multiple goals, the strategic objective concentrates on one primary, numerically-focused target.

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Understanding and effectively utilizing strategic objectives require a well-defined mental model, especially among action-oriented company leaders. These strategic objectives become the bedrock of a company's success culture, backed by extensive research to increase the likelihood of achievement.

Communication of strategic objectives primarily targets senior executives, who then translate these high-level targets into actionable tasks for their teams. The strategic objective is a foundation for a pro forma income statement, enabling backward extrapolation and detailed planning for the desired goals.

While the strategic objective should remain consistent, it might require adjustments due to significant environmental changes. Regular reviews ensure its continued relevance and effectiveness. Finally, strategic objectives should align with the company's vision, distinguishing them from mere goals and helping the entire organization maintain focus on a singular, defining target.

Strategic Objective in Practice - How to Use the Forms
Click on the form above. You will see examples of strategic objectives on the 1st page. On the next page, you can determine your strategic objective, and break it down for the next 3 years. Your strategic objective should be one single number that represents the most important number your company should focus on. The single-number strategic objective will guide the rest of your decisions throughout the course.

In the next form, you will break down the 3rd year's strategic objective into a summary Income Statement. The next form guides you to continue to break down the strategic objective into all three years. Working on these projected Income Statements will create a high level of clarity about your 3-year Strategy to Win journey.

The next form will have you look at the projected annual revenue as a monthly revenue rate. We don't have to wait until the end of the year to determine if we are on track or off track. The monthly revenue rate will give you a clear idea if you are on track or off track. Revenue is not the only measure, however, it can be a good leading indicator about achieving your desired end results. If you have the capability or someone on your team with the capability, it is even more beneficial to break down the monthly revenue rate in a spreadsheet on a month-by-month basis to account for seasonality or other factors that are more precise than a monthly average.

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In addition to the monthly revenue rate, the next form will have you determine your profit margin standards for gross and net profit margins. Chances are, if you are hitting your revenue goals and maintaining your profit margins, it follows that the other numbers on your Income Statement and Balance Sheet are moving in the desired direction.

These forms are helpful to discuss with your executive and management teams. Most employees do not get excited about the numbers. However, your leadership and management team can offer invaluable insight that will shape your decisions.