Lost? You Need a Road Map

by By Joel Prather

If the truth were known, very few jobbers and WDs plan very far in advance. Most run their business by the seat of their pants, making decisions on the spur of the moment and guiding their companies as if they were a ship in a storm. Many have been quite successful at this, even though such constant changes may take their toll on the sanity of a manager. It was much easier in the old days, when the market was more stable. Today with fast changing trends, increasing parts proliferation, mergers and acquisitions and long-time distributors going out of business, few executives can afford *not* to plan. A well thought out and adaptable plan may be the key to success for aftermarket executives.

Strategy is defined as a unified, comprehensive and integrated plan that relates a firm's strengths to the challenges it faces in its business environment. Strategic management is a process by which all planning is done in a coordinated effort, taking into account all variables that affects the business. Once the process is complete, the plan is reviewed on a periodic basis, changed if needed and communicated to the firm's employees.

When used, management will get a clear picture of the firm's overall goals and objectives. The manager and his employees will not waste a lot of time, effort and money chasing ideas that are not consistent with the firm's objectives.

This topic may sound familiar. There have been previous articles in this column on specific areas of management such as marketing, finance and reward systems. Here we are discussing the company's overall goals.

Know your business

The first thing a firm should address is its position in the marketplace. In which area of the aftermarket does the business operate? What is its market niche? Where is the firm the most competitive? Least competitive? What are the firm's strong and weak points? Where do you want to be next year? Five years from now? Ten years?

These and other questions must be answered before real strategic planning can be started. Management must know where the firm is headed and how it rates in the market. You might be thinking, "This is ridiculous! I know what I am doing! I'm in the auto parts business!" That may be true, but which area? Are you primarily in brakes? Engine parts? Do you have service bays or a machine shop? Do you specialize in marine parts or PBE products? Who is your major competitor? Why is he better than or not as good as you are? What are his strengths and weaknesses?

Knowing the answers will force the executive to examine his niche. It is so easy to chase several markets at one time, only to find you've spent so much time and effort to be "everything to everybody" that there are no profits left. Inventories and manpower might have to be increased dramatically just to gain some business in an area where the firm is already weak. While the firm is chasing this new business, old business may be going to your competitors.

Internal factors

Once you have determined where you think you are and where you want to be, determine the feasibility of your goals. Do you have the resources to make changes? What are the costs of carrying out plans to go after a new market segment? Will it be profitable, or will the firm just dilute its resources? Be sure to consider the strong points of the firm rather than concentrating on the negative aspects. It is natural to want to eliminate the problems that exist in the business, but a good manager can use the firm's good points to his advantage. A strong inventory, fast turnaround time, a knowledgeable sales force and strategic location are examples of good points to consider when making plans. These may weigh heavily against the competition.

Most of us think in terms of business growth. Practically all information you will normally see or hear will concern growth in business. There are times when growth is not a viable strategy to consider. There are, in fact, four general strategies to consider: expansion, stability, retrenchment and combination strategies.

A strategy involving expansion is obviously the most popular. All companies desire growth, and growth is usually achieved through expansion. An expansion strategy is normally considered when a company believes that it can offer more goods or services than now exist in the market. This might involve adding new product lines or services, more inventory depth, going after new customers or adding new stores. It might also involve integrating part of the distribution system, such as warehouses purchasing jobber stores or jobbers adding service bays. Expansion strategies usually carry more risk than the other strategies.

Stability sounds like it is a non-growth strategy, but this is not necessarily true. Stability strategies are pursued when a firm seeks to continue to offer the same services it has in the past or when the firm's decisions focus on improving functional performance. Improving functional performance can be considered growth, especially when the firm increases net profit as a result.

Stability strategies are followed when a firm perceives itself as successful. These strategies are usually less risky. Some stability strategies might include improving purchasing power, improving fill rates, improving order turnaround and increasing internal efficiency.

Retrenchment has always been thought of as a dirty word. Such strategies do refer to reductions, but this is not always bad. True, one retrenchment strategy might involve reducing both labor force and inventory due to a bad economy or because of too much expansion in the past. A firm might also consider a retrenchment strategy when it is obviously losing money in a particular venture. For example, a warehouse distributor might have decided that since it is no longer profitable to own its own stores, it will sell them. A retrenchment strategy may be followed because the company sees better opportunities elsewhere. For example, a firm may be forced to sell so cheaply to compete that it decides the money could be better invested in securities.

Combination strategies are just what the word implies. They involve the use of more than one type of strategy at any given time. Combination strategies are used more often than a single strategy. For example, the warehouse may sell its company-owned stores (retrenchment) while seeking independent jobber customers in additional market areas (expansion). A multiple-outlet jobber may decide to close one location in a dying market (retrenchment), use the money to increase inventory depth in another store (stability) and begin delivery service in a third location (expansion).

Make the plans

If you have a solid idea of where you want to be in the years to come, plan now on how to get there. Set specific goals, such as a 10 percent increase in sales each year, a 60 percent market share by the end of the third year, an increase in net profit of five percent. Such specific goals will allow you to measure your progress and determine if you are on track or if you need to rethink your strategy. Concrete plans will allow you to keep your thoughts and actions directed toward specific goals. You will know where you are heading.

One major problem in most firms is lack of communication. You are developing these nice, comprehensive plans. You know where you want to go. Just be sure to tell your employees! If you expect them to carry out the tasks and meet the objectives you have set, they must know the plan. How can you expect your employees to know the way if you have not given them a road mad? How will they know when they get there if they don't' know where they are going? The best way to do that is to put the plan in writing and communicate it to them.

The first and most important item in your written plan is a mission statement. This may be one sentence or a paragraph defining the basic reason for a firm's existence. It should answer the question, "What business are we in and why are we in business?" The mission statement may be as simple as "To serve as a distributor of automotive parts to installers and to provide the best possible service at the least cost to the customer," or it may be much more elaborate.

Next, put all your projections and goals in writing. This solidifies the goals, making it easier to refer to them from time to time so you and your employees can determine if you are on track.

One of the best ways to identify your niche, examine your position in the market and determine your strategies is to involve your employees in the process. They are on the firing line. They know what is going on out there. They can give you ideas on how to go to market and possibly how to remain there. Through their involvement, they become aware of the goals and plans of the firm, facilitating the communication process. Employees like to be heard. They usually welcome the opportunity to say what is on their minds about the business. They appreciate the fact that management has taken the time to hear their views.

It may seem that strategic management is a lot of trouble. Why start now? After all, you have survived all these years running the business the same old way you always have. And as the executive, you know what you want to accomplish. Or do you? And do your employees? The best people to ask are the companies who went out of business last year. If they had planned better, they might still be here. And then there's your competitor. I am sure he is the last person who would want to see you really plan well.

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