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Rethinking Organizational Strategy

FIVE STEPS IN DEVELOPING A SUSTAINABLE STRATEGY THROUGH A VALUE-FOCUSED APPROACH

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Company Background

Wall of Sound (WS) is a retailer that specializes in high-end audio and video (AV) products. Founded by audio enthusiasts John Wall (President) and Maria Sound (Vice President) in 2001, it quickly found success with a niche market of audiophiles. WS originated out of necessity rather than a specific need.

MANAGEMENT ACCOUNTING GUIDELINE

CASE STUDIES

Overview

The audio/video association

Both John and Maria met as members of a national audio/video association. Like most association members, they shared a love for high quality audio in a world filled with low quality, compressed, and mass marketed audio offerings.

Members of the association aspired to find and share music as it sounded during original studio recordings. Members shared advice amongst themselves about the types of equipment and accessories that got optimal sound from audio and video systems. Discussions naturally grew to include optimizing video resolution along with remastering nostalgic music and films.

Within the association, John and Maria's reputation for audio and video excellence grew exponentially. With their expertise, they were often asked to speak at local and national audio/video events. Both remain go-to experts in this space.

Even though the association provided informal value, John and Maria recognized the association's growing popularity. With current market music and video offerings being generic and/or low quality, they saw a business opportunity to serve the discerning audio and videophile market.

WS origins

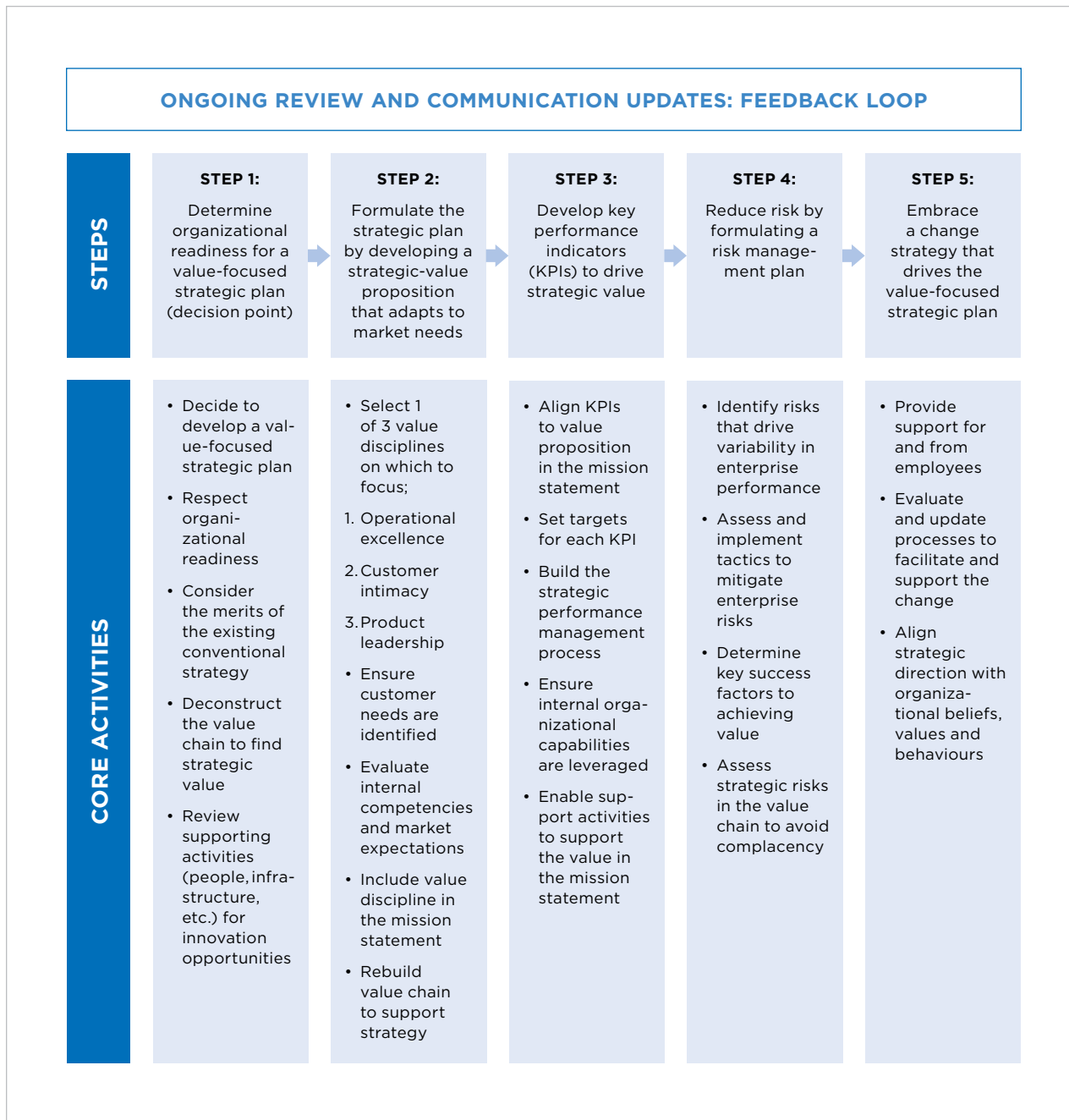
John and Maria agreed to start an audio/video business for the sole purpose of serving this latent segment of the market. Even though they weren't able to determine market size, they believed that once people discovered quality audio they would quickly get on board. In April 2001, WS was born.

WS opened three retail locations in its hometown of Toronto and grew quickly in the first 10 years. Private investors witnessed the demand and financed audio/video boutiques in major centers across Canada.

The journey to generating strategic value

WS' owners decided they needed a longer-term approach to managing the business. They wanted to adopt a structured approach to manage the strategic planning process and implementation. Since products and competition evolve quickly in the audio-visual retail space, the owners decided to employ a value-focused approach to strategic planning, using the five steps outlined in the guideline (Figure 1).

FIGURE 1: THE FIVE-STEP APPROACH TO SUSTAINED VALUE-FOCUSED STRATEGIC PLANNING



Here is a summary of the notable events and observations that took place at WS during each step of the strategic planning process:

STEP 1:

Determine organizational readiness for a value-focused strategic plan (decision point)

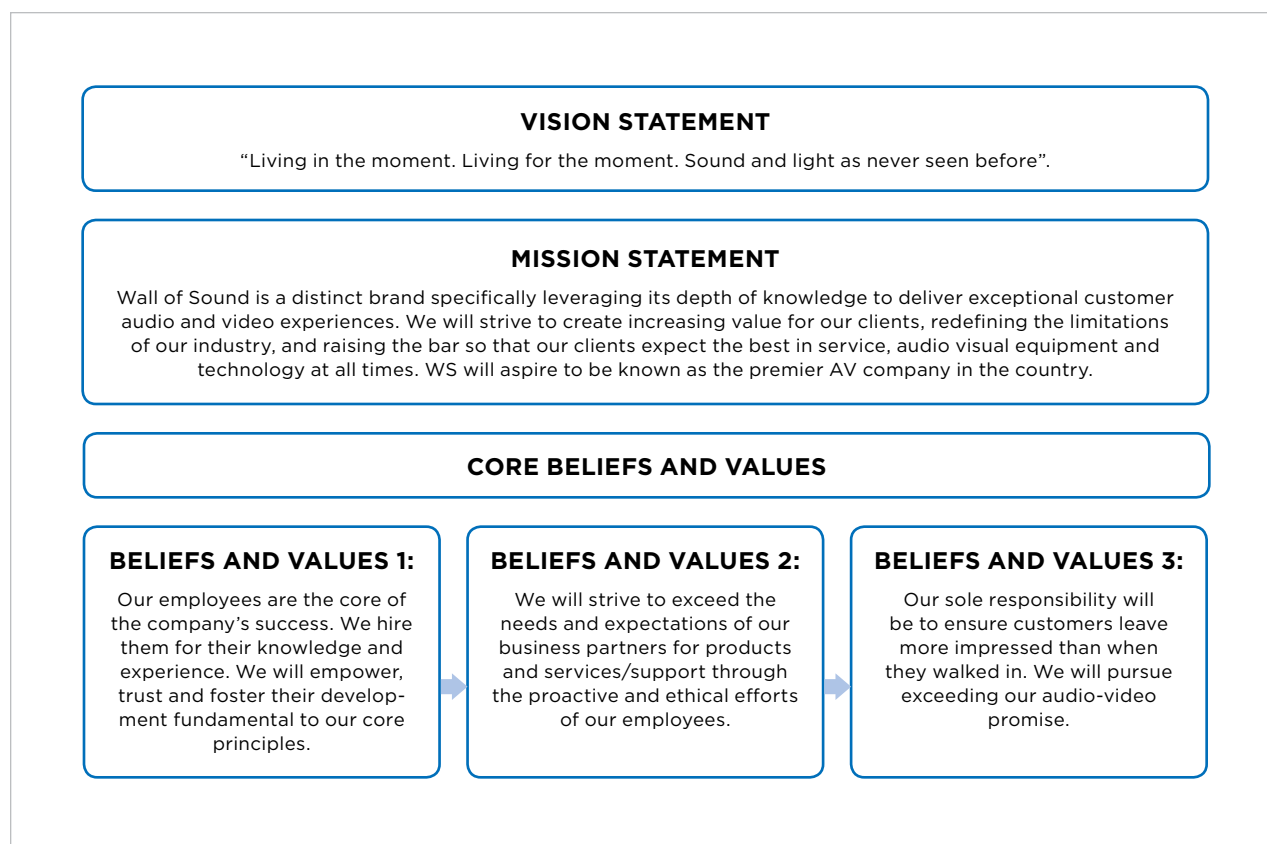
Step 1: Determine organizational readiness

WS' retail boutiques specialized in selling AV products and accessories that would pass a high-end quality standard (set by John, Maria, or a reputable authority). Another important aspect for WS was to carry items not offered by big-box retailers or those not easily accessible to the general public. They proudly expressed that if you could not find it at WS, it doesn't exist.

Step 1a: Re-think the organization's strategy

As a growing retail force, John and Maria felt that WS was slipping into a myopic retail focus, more concerned with store operations than the reason they established the business in the first place: to serve the audio and videophile market. Maria had developed the company's current mission and vision, communicating its purpose and aspirations (Figure 2) prior to the decision to develop a value-focused strategy. Being business savvy, Maria recognized that the company needed to align its core competency (AV knowledge) with the potential market expectation.

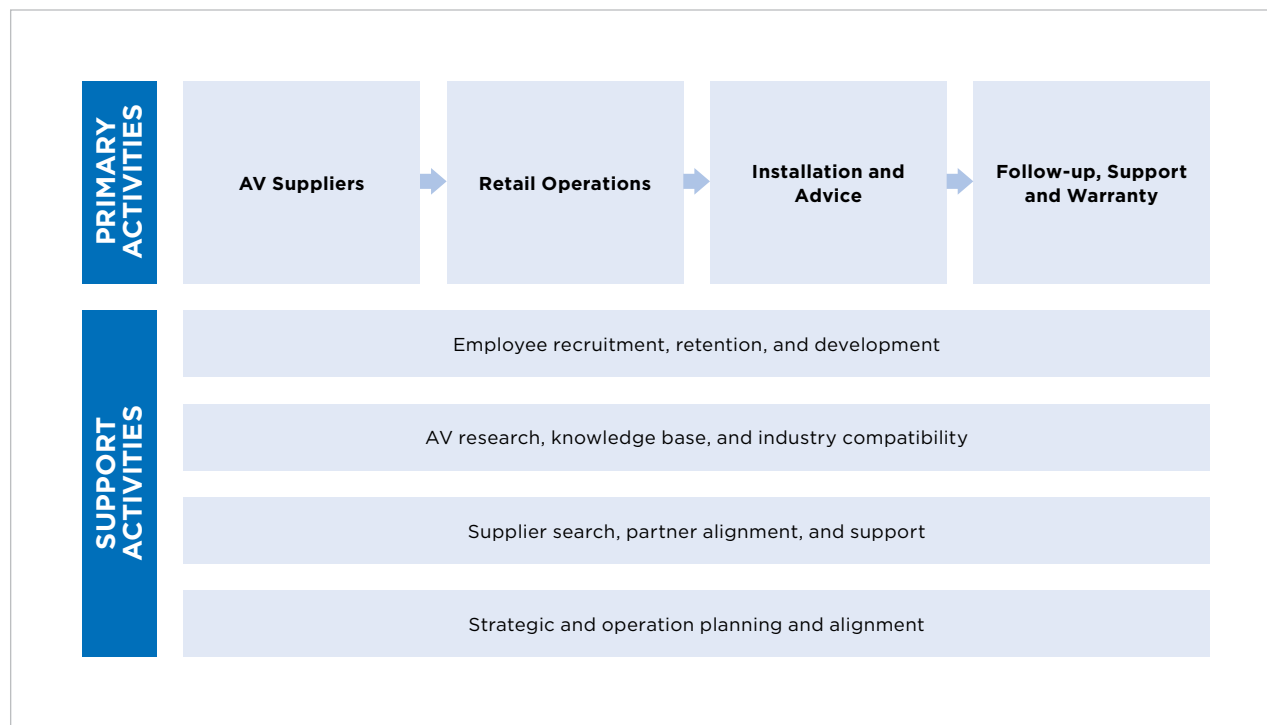
FIGURE 2: WS STRATEGIC FRAMEWORK



Step 1b: Align the value chain with the strategy

Along with their senior leadership team, John and Maria defined WS' value chain and broke it down into its primary and support activities (Figure 3).

FIGURE 3: WS VALUE CHAIN (PRIMARY AND SUPPORT ACTIVITIES)



John reminded the team how WS' primary operations succeed when core support activities remain healthy. He emphasized that WS had to maintain and develop its core competency in audio/video expertise. This was one area he and Maria believed competitors could not match. They ensured that this advantage flowed through their support activities to deliver leading primary music and video offerings.

STEP 2:

Formulate the strategic plan by developing a strategic-value proposition that adapts to market needs

Step 2: Develop a strategic value proposition

By 2011, WS had built a reputation for unsurpassed A/V expertise and experience, cementing a loyal following and, unfortunately, attracting the attention of competitors like Best Buy and The Source.

WS is perceived as a premium A/V retailer and customers are willing to pay higher prices in return for expertise and higher service and product quality value. Justified or not, competitors pointed to WS' rapid growth and loyal customer base for their own declining A/V market share.

Over the years, loyal customers began referring to WS as the audio/video equivalent of Starbucks with retail locations becoming venues for enthusiasts to gather and discuss their passion for high quality equipment and accessories. And, on occasion, they would get to meet and talk with John or Maria.

Step 2a: Assess the strategic value proposition

John and Maria recognized that it was time for WS to return to its roots and capitalize on the market trends and needs of loyal WS followers. Maria suggested that to avoid competing on price with major retailers, they either focus on becoming more attentive to customer needs or invest further to develop their A/V leadership.

WS' decision to focus on its customers and on product leadership required the company to reinforce specific support activities within its value chain. WS grew its knowledge base, researched customer expectations, developed employees so they were equipped to interact with knowledgeable customers, and aligned operations with this revised value focus.

Step 2b: Adapt the organization's value proposition

To complicate matters, the retail market was undergoing a significant shift: many people began using the Internet to fulfill their A/V needs, reducing traffic at WS boutiques.

In response, WS launched a unique online A/V environment, SoundSpace.com, providing subscription-based access to rare sound experiences such as access to original studio tracks and uncompressed analogue formats, unlimited A/V support, exclusive product discounts, and extended warranties for purchases.

WS also developed an online retail space with Amazon, offering exclusive products. In a joint agreement, Amazon agreed to provide marketing support and order fulfillment, allowing WS to leverage the Amazon brand while Amazon gained immediate market credibility with high-end A/V buyers.

Furthermore, SoundSpace.com also provided private labeling and branding environments within the Amazon framework for loyal suppliers and select competitors to sell A/V products for a percentage of the monthly revenue from the private labeling to competitors. This online strategy fostered WS' focus of aligning product leadership with customer intimacy, capitalizing on customer loyalty.

Step 2c: Embed sustainable value within mission objectives

There was little for John and Maria to do in this step since their original mission was so well articulated. They realized early on that their value disciplines were product leadership and customer intimacy. They also embedded the importance of A/V knowledge by noting that the business would "leverage its depth of knowledge" when serving customers.

Step 2d: Rebuild the value chain

To offset the forecasted decline in boutique traffic, WS consciously decided to evolve the boutiques from retail locations with significant inventories to A/V-phile community gathering spaces. WS decided to rebrand, keeping the name “Wall of Sound” as the corporate entity and renaming the boutique’s SoundSpaces to align with SoundSpace.com.

Stores scaled back on the traditional store concept and restructured to offer:

- opportunities for premium A/V suppliers to spotlight products at invitation-only events
- a selection of high-demand A/V items and accessories exclusive to the “SoundSource” brand
- in-boutique learning sessions and services led by industry experts (from hardware selection to sound and video appreciation)
- access to an expert SoundSpace-approved marketplace where pre-approved A/V experts provide independent advice to clients
- in-store mobile search and order units enabling customers to order directly from the SoundSource.com site and have it delivered to their door

In executing the scale back, WS maintained its focus on product leadership and customer intimacy, and on leveraging its internal knowledge (a support activity), while being adaptable and resilient.

These elements above were included within the SoundSpaces.com subscription and some even generated additional revenue through suppliers and customers for SoundSpace.

This direction:

- capitalized on WS’ established product leadership brand
- enhanced the focus on the customer, addressing the needs of a discerning market
- leveraged the support activities within the value chain setting WS apart from competitors
- created a niche market, attracting target clients
- ensured customer loyalty and increased profit margins
- reduced competitive challenges and mitigated the risk of losing sales
- potentially attracted non-targeted customer base

STEP 3:

Develop key performance indicators (KPIs) to drive strategic value

Step 3: Develop key performance indicators

John and Maria recognized that their revised strategy is only as good as how well they are able to execute. Working closely with their leadership team, they revisited their mission and vision.

Step 3a: Align performance expectations with the strategic value proposition

WS' move toward its revised strategic value highlights the need for the company to emphasize its vision and allow customers to experience:

“Living in the moment. Living for the moment. Sound and light as never seen before.”

While WS' founders believed the company's original mission statement embraced the revised strategic direction, they saw an opportunity to emphasize certain components of the mission. John and Maria recognized that product leadership was not enough on its own. They also relied on customer intimacy and product knowledge. Thus, support activities played an important role in the company's value chain.

Step 3b: Identify key performance metrics

Recognizing that key support activities drove success in the company's primary operating activities, John and Maria identified the following support activities, KPIs, and perspective alignment:

FIGURE 4: KEY PERFORMANCE METRICS, SUPPORT ACTIVITIES, AND PERSPECTIVE ALIGNMENT

Support Activity	KPI	Perspective
Procurement		
Supplier search	<ul style="list-style-type: none"> • Supplier qualification to WS standards • Quality-service-cost benchmark 	<ul style="list-style-type: none"> • Internal process
Partner alignment	<ul style="list-style-type: none"> • Supplier audit and product redundancy • Procurement cycle time • Delivery to schedule time ratio 	<ul style="list-style-type: none"> • Internal process
Supplier support	<ul style="list-style-type: none"> • Service quality to service level agreement • Supplier warranty support responsiveness 	<ul style="list-style-type: none"> • Customer • Financial

Support Activity	KPI	Perspective
Human Resources		
Employee recruitment	<ul style="list-style-type: none"> • Candidate qualifications to skills requirement • Percentage of candidates who meet job criteria • New hire to attrition rate metric 	<ul style="list-style-type: none"> • Learning & growth
Employee retention	<ul style="list-style-type: none"> • Manager satisfaction evaluations • Quarterly employee survey results • Turnover rate for highest performers 	<ul style="list-style-type: none"> • Learning & growth
Employee development	<ul style="list-style-type: none"> • Knowledge applied through training • Skills inventory vs. skills gap ratio • Percentage of workforce below performance standards 	<ul style="list-style-type: none"> • Learning & growth
Technology		
AV product research	<ul style="list-style-type: none"> • New product revenue as percentage of total revenue • Product search expense as percentage of revenue • Percentage of new products offered on schedule 	<ul style="list-style-type: none"> • Financial • Financial • Internal process
Online website performance	<ul style="list-style-type: none"> • Online click-through rates • Order check-out completion • Orphaned orders metrics • Inventory flow-through and returns 	<ul style="list-style-type: none"> • Internal process
Industry comparability	<ul style="list-style-type: none"> • Unique visits vs. return visits • Visit duration and conversion rates 	<ul style="list-style-type: none"> • Customer • Financial
Infrastructure		
Strategic planning and alignment	<ul style="list-style-type: none"> • Alignment to mission and vision objectives metrics 	<ul style="list-style-type: none"> • All to the mission
Operation alignment	<ul style="list-style-type: none"> • Conversion of inquiries to sales leads • Sales forecast-to-plan performance 	<ul style="list-style-type: none"> • Customer, Internal process • Financial, Customer

STEP 4:

Reduce risk by formulating a risk management plan

Step 4: Formulate a risk management plan

WS had an eye on its core strategic value from the beginning which allowed the company to refocus when it strayed from that value. WS first realized success through its product leadership value. It was a wise and obvious move given John and Maria's experience and the unmet market need.

Step 4a: Operationalize strategic value to reduce operational risk

WS' status as a product leader through its initial growth phase differentiated the company from generic A/V competitors who were filling a mass market need. This mitigated WS' risk exposure since competitors weren't threatened by WS's niche market focus of high fidelity audio and video.

Established competitors believed that WS's narrow focus would limit its growth and that eventually WS would fail. This was shortsighted since WS' fresh approach set it apart from competitors. This situation is similar to how book retailers ignored a startup called Amazon.

With WS' competitors employing a conventional strategic approach, addressing the needs of a mass market, their market share and profit margins eroded over time. Focusing on strategic value, as WS did with product leadership, creates an inimitable advantage over competitors.

Step 4b: Leverage strengths to build strategic value

Leveraging its product leadership value, WS positioned itself to minimize market risks, build and secure market share, and maximize profit margins. Even though there was risk associated with it, pursuing this approach actually reduced – and, at times, eliminated – greater competitive risks since competitors initially ignored or didn't take notice WS.

Once established competitors recognized that WS was encroaching on their market share, they aggressively entered the high-end A/V market. The only hope for competitors was that WS would slip into a competitive battle in the mass market. If WS had done so, it probably wouldn't have survived. WS remained focused on its strategic value position, continuing to satisfy its target market and, as its reputation grew, attracting mass market customers who sought more specialized service and advice than they were receiving from competitors.

Step 4c: Adapt strategy to limit strategic complacency

With their early recognition of retail trends moving online and the shift in their competitors' behaviour, John and Maria were far from being strategically complacent. Reinforcing the company's product leadership focus and layering in customer intimacy allowed WS to secure existing customer loyalty and build unique A/V experiences.

STEP 5:

Embrace a change strategy that drives the value-focused strategic plan

Step 5: Embrace a change strategy

From its inception, WS has been a change agent in the A/V market, representing a transformation of what has traditionally been expected from a conventional A/V retailer.

Step 5a: Manage incremental or transformational change in strategy

From the start, John and Maria have lived and breathed the quality A/V experience. Their involvement with the association and their desire to share their knowledge and passion were the impetus for creating WS. These qualities became its foundation and, over time, its culture. For this reason, the change to a value-focused strategy was incremental, rather than transformational.

Step 5b: Align the culture with strategic value

WS' culture did not grow in a vacuum. John and Maria instilled their commitment to high quality music and sound in their company. It ultimately attracted likeminded and passionate people who wanted to share their knowledge with others. These employees now personify the WS culture.

WS' success became a challenge for competitors to replicate. They may have been able to offer similar products, but they didn't have WS' passion and knowledge.

Key learnings

The WS case is based upon a successful audio/video retailer. For many years, the real company found tremendous success. But rather than continuing to anchor to its value as WS did, it began to compete head on with major retailers and ignored the changes in the retail and music offering landscape. As a result, the company came to an abrupt end.



Organizations must anchor their strategic plans in sustained strategic value rather than exclusively focusing on conventional strategic objectives. The primary activities of successful organizations are largely driven by robust support activities that embrace strategic value propositions.

It is impossible to say whether or not the real company would still be around if its founder incorporated the strategies WS incorporated in the case. But if the company remained true to what made it successful initially (rather than slipping into conventional strategic habits), it may have been resilient enough to survive.

The future: A look ahead

Any organization embracing a strategic value approach will be a formidable opponent. Many current strategic value companies began within environments occupied by large, well-established companies. Most predicted that their chances of success were very small or that larger competitors would eventually acquire them.

Today, many “established competitors” are gone or struggling to survive and these strategic value companies continue to evolve and grow. Rethinking strategy in terms of strategic value (and focusing on value chain support activities) makes an organization resilient to competitive threats and adaptive to market changes. Incremental innovation becomes transformational for competitors of such organizations.

When rethinking strategy, think about RAISE-ing your strategy process: incorporate a strategic value focused approach to planning.

Resources

About the author

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Ajay is a Fellow of the Certified Professional Accountant (CPA) and Certified Training and Development Professional (CTDP). Ajay, with partner Teresa Kirkwood, published three books with their recent title, “The Trainers Balanced Scorecard: A Complete Resource for Linking Learning and Growth to Organizational Strategy”. Under his leadership, Training Magazine awarded CentralKnowledge their Technology in Action, Learning Management Project of the year for success with Apple. He is an award-winning writer winning the 2014 and 2015 prestigious TrainingIndustry.com Readership and Editors’ Award. Elearning! Magazine recognized Ajay as their 2016 Learning Champion and Thought-leader. The World Training Development Congress named Ajay their 2017 “Distinguished Trainer”. He develops courses for LinkedIn Learning and regularly guests on Montreal’s #1 Talk Radio show discussing workforce performance issues.

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