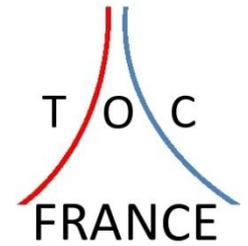


“Never Say I know”

Also “Never Say I Don’t Know”

You know something but never everything



Introduction to Strategy the TOC Way

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My recent realization

- ⦿ There are TWO critical, but quite different, flows within every organization:
 - The flow of **value to the clients**, in other words the flow that generates throughput
 - The flow **of ideas/initiatives** that aim at improving the performance of the organization in the future
- ⦿ Each of those flows have a constraint!
 - The constraints are different!!!

Improving the flow-of-initiatives should become the key for advancing the TOC knowledge!

When tomorrow is exactly like today

- ◎ Too many organizations are in **stagnation**
 - No efforts are done to expand the market, get new clients or deliver significantly higher value to existing client
 - The organization sells a well-defined set of products to the same clients
 - Most organizations strive to **survive** rather than grow
 - Growth itself seems to be risky
 - Many business areas are stuck in a **deadlock**
 - Banks, airlines and hotels, imitate each other and by that keep their own place in the competition
 - Unless, someone rebels and comes up with something truly new
 - Like the cheap and simple airlines going from one location to another

Designing the future of the organization

- ◎ Strategy consists of high level initiatives that aim at significantly higher level of performance in the future
 - Reaching much more of the goal
 - High level initiatives require lower level of initiatives
- ◎ Different types of initiatives
 - **Market expansion** as the typical high level initiative
 - New products and services, new market segments / export, delivery, pricing, business relations and distribution channels
 - **Infrastructure**
 - Capabilities and technology, management, facilities, POOGI and organizational culture
 - **Control mechanisms** against risks and threats
 - Including tight control of I and OE

The TOC general direction for Strategy

- ◎ First define **what you seriously strive to be** in the future
 - It is the **state in reality** NOT the actions required to bring us there!
 - It is NOT where we are now: we should always strive to be higher
 - Once we decide what we like to be – this is our **top strategy!**
- ◎ Then we need to evaluate the **sufficient conditions** that would bring us to the top strategy
 - Every **necessary condition** that is not already valid is a future state of reality that we need to achieve
 - At the same time, we need to keep the necessary conditions that are already in place
 - And we need to deal with all the **risks and uncertainty** on the way

The critical need to achieve a decisive competitive edge

- The core cause behind **stagnation** is embedded in a universal conflict between **security** and **high achievement**
- Gaining **a decisive competitive edge (DCE)** for wide enough market segment(s) resolves the conflict
 - Offering value to the client that is perceived as **vastly superior** to any other competitor
 - And this superiority can be kept for a significant amount of time
 - Organizations that have established a clear DCE for long time:
 - Apple , Toyota, SAP, Lonely Planet
 - Others had and lost their decisive competitive edge: Kodak, Nokia, CNN

The necessary conditions for a DCE

- ◎ Delivering **critical value to the client** in a way that **other competitors are not able to**
 - The DCE could be a feature in the products, a related service, a specific business relation or even a necessary image/reputation
- ◎ Offering unique products is not enough!
 - The **value to the clients** must be both **significant and unique**
 - The client has to recognize and appreciate the value
- ◎ Every DCE is actually a **mafia-offer** to a large market-segment, plus ensuring the ability to deliver as promised
- ◎ Another condition: **in all other aspects the company are in par with the competition in the relevant markets**

The ramifications of NOT having a DCE

- ◎ The feeling of **security / stability could be false!**
 - Because, any competitor who would embark on a DCE **would shake the whole industry** and will break the deadlock when it exists
- ◎ There is a lot of pressure on all managers **to keep the current market share**
 - The pressure on price is enormous
- ◎ Lost of clear focus
 - Without clear emphasis on what makes the value to the clients superior then everything else impact the bottom-line

A generic direction to gain a DCE

- ◎ Identify just **one feature** in a product, service, common business rule or the way of delivery, which could add value to many potential clients, and improve it significantly
 - The feature has to be something that competitors currently neglect
 - Ideas could be learned from another business area
 - For instance, using the idea of “frequent fliers” in retail
 - So far, not too successful in the “translation”
- ◎ The focus has to be on being unique, create value to the client and with small risk!
- ◎ Warning: Do not develop many DCEs at the same time
 - It is bad exploitation of the Management Attention constraint!

The TOC emphasis on a DCE based on superior operations

- ◎ Goldratt has carefully chosen a suite of potential DCEs, based on superior logistics, for the Viable-Vision offers
 - TOC already had the methods to back up those offers
 - The capability is already there!
 - **Reliable delivery**, on time and in full, is an asset that could be a valid DCE when the competitors are not reliable and significant damage is caused by the unreliable supply
 - **Rapid response**: Not just being reliable, but **when needed** the client can get it faster - for a price
 - **Commitment for perfect availability**
 - Letting the relevant client **know** that they would find those products at the promised warehouse whenever they need
 - It is a DCE **only when the client truly suffers from shortages** of your products, without having obvious replacements!

Understanding the perspective of the clients

- ⦿ Without unique and significant value to the client, relative to all alternatives, there is no DCE
 - We need to refer to both the **immediate clients** and the **consumers**
- ⦿ **Good understanding of the client is absolutely required**
 - Understanding **the value and use** of the product
 - Cause and effect trees, certainly FRT, could be used to analyze the value to the client
 - Including the negative branches

The DCE and the right market segments

- ◎ **Any DCE should define the segments for which it is truly a decisive competitive edge**
 - These market segments have to be **large enough** to base the future growth of the organization on that DCE
- ◎ When the value lies on a practical need then **the limitation**, eliminated by the DCE, is currently causing a severe UDE to the client
- ◎ Any definition of a DCE should include good description of the target market segments

Beyond the DCE

⦿ **Being ready for the change**

- Becoming ready is the first gross initiative
 - Reasonably stable current operations, good enough financial state and good management who truly desire to improve are necessary conditions

⦿ Setting **control mechanisms** to spot any “surprise”, then having a procedure to quickly analyze the cause, draw the conclusions and execute the required actions

- There is a structured process for “**Learning from One Event**”
- It is especially important during the change period
- There is a past webinar on that topic
- It should be used also to spot unanticipated threats

More beyond the DCE

- ◎ A big risk is to **overload the managers**
 - Both in the **capacity** of management attention and on their **capabilities and knowledge**
 - Like, dealing with issues that are new to them
 - Or having to manage might larger areas of responsibility
 - So, be aware of the potential need to increase the management layers, creating new roles and finding the right people
- ◎ The **financial state** is always a potential threat!
- ◎ The ability to note **the decline in the effectiveness of the current DCE** and coming up with new DCE is a capability that needs to be learned and nurtured

Dealing with risk and uncertainty

- ◎ I define **Risk** as a reasonable probability for a **disaster**
 - A very high potential damage we are not ready to suffer from
 - Which means that we do our best NOT to take such a risk
 - We need to clearly define the line between ‘tolerable damage’ and ‘**intolerable damage**’ that requires prevention at all cost
- ◎ Any Strategy, no matter how well the cause and effects are defined, is subject to high uncertainty
- ◎ TOC teaches us to include **buffers in the planning**

Strategy, uncertainty and buffers

- ◎ Some buffers are used to ensure achieving the **objective**
 - Like the buffers used in SDBR and CCPM
- ◎ Other buffers are used to protect from **a probable damage**
 - Insurance is such a buffer!
- ◎ What buffers could we use to ensure achieving the expected impact of the DCE?
 - **Pilots or careful tests** of the core idea can be used to reduce the risk of failure of the idea to be a DCE
- ◎ **PLAN B** is a buffer against the **damage of a failing DCE**
 - Idea for an alternative move, less spectacular, but more certain, to keep the momentum for growth and stability

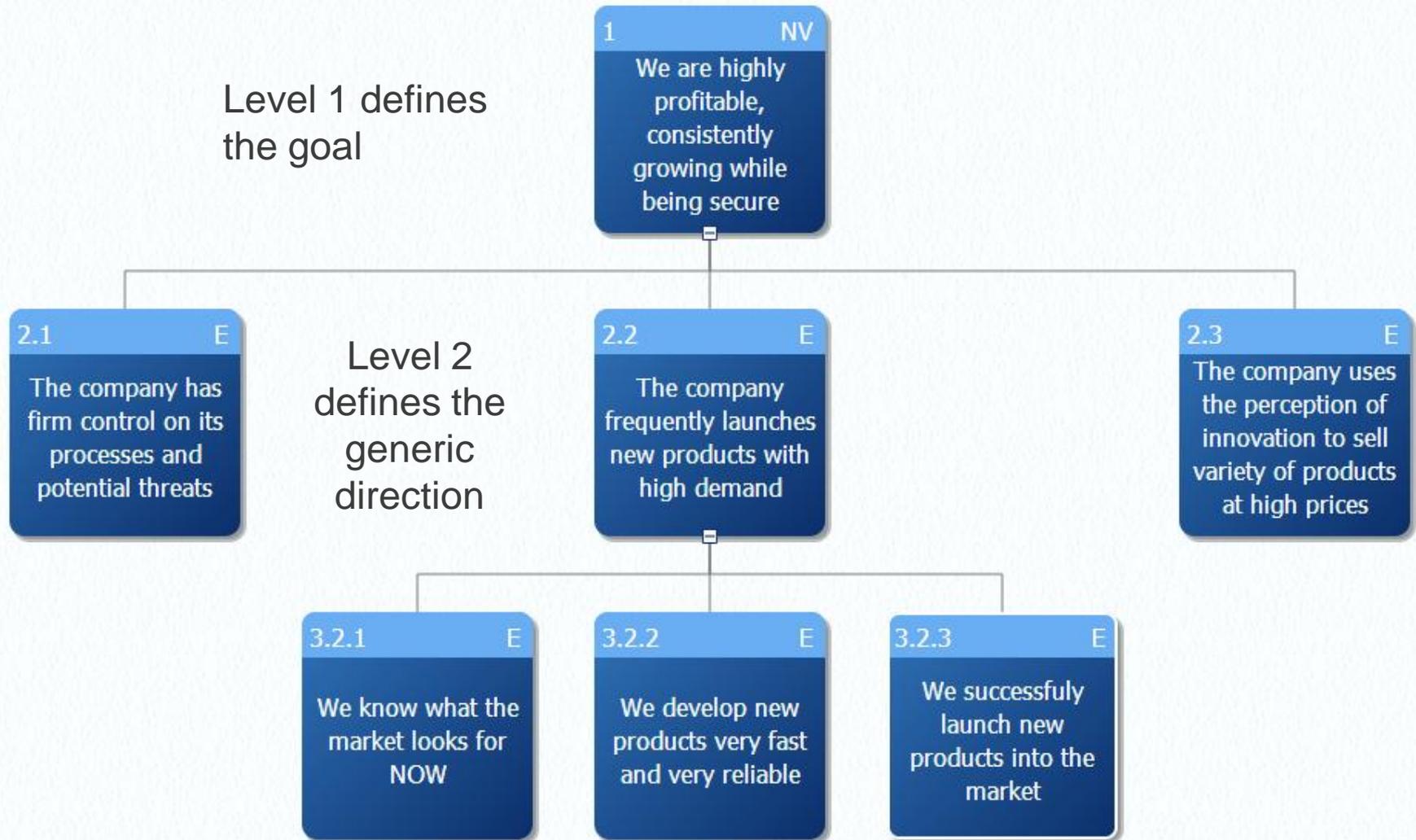
The S&T as a tool for Strategy planning

- ⦿ The objective is to create an **overall plan** outlining the objectives and initiatives required to achieve the goal
- ⦿ At the top we have the definition of the GOAL
- ⦿ Immediately below it are the **gross objectives** required to move the organization towards the goal
 - Together with the **planned actions** to achieve the objectives
- ⦿ Below it – the **necessary intermediate objectives**
 - Again together with the required detailed actions required
- ⦿ Eventually we get a **MAP** of what every one in the organization has to contribute and the logic why it is needed

Understanding the definition of strategy and tactic in the TOC way

- ◎ Definition: a **strategy** is a **future state** that we like to achieve
- ◎ Definition: the **tactic** is the mean, **the actions** or the specific initiative that would bring us to the strategy
- ◎ What we actually get is a **tree of strategies and their related tactics**
 - Each strategy / tactic might require lower level strategies and tactics to materialize the higher level tactic
- ◎ Insight: The **effective thinking** should always start with the **objective** in mind and only then identify the actions to achieve it

The essence of the strategy tree



The three entities of level 3 are required to achieve entity 2.1.

The structure of an entry in the S&T

- ⦿ Every entry consists of two main entities and three types of assumptions
- ⦿ The two main entities:
 - **The strategy: The future state we need to achieve**
 - **Tactic: The means/actions/initiatives we need to take to accomplish the strategy**
- ⦿ The three types of assumptions
 - **Necessary assumption(s):** Why the strategy is required?
 - **Parallel assumptions:** How come the tactic would achieve the strategy
 - **Sufficiency assumption(s):** How come this level is cannot be executed as is, so there is a need to detail the lower strategies and tactics?

Three necessary elements for any gross initiative

◎ **Build**

- When certain capabilities, mainly in Operations, are missing – we need to build them
- When processes are not well-defined – build them properly
- When we do not have the manpower or the motivation – bring the manpower and create the right motivation

◎ **Capitalize**

- Be able to capitalize on the capabilities to deliver value to the client by **making the potential client understand the full value**
 - For this we need to know how to radiate and sell the added value

◎ **Sustain**

- Be ready for growth without tampering with the performance to the client

Final conclusion and warning

- ◎ The S&T is a tool to **organize** your Strategy planning
 - It is NOT the tool to generate ideas!
- ◎ You need to come up with **ideas regarding the DCE** first and then find out how to make it happen
 - Including excellent understanding of the clients and what value they current miss that you is able to provide
 - You have the **core capabilities** or you know how to acquire them
 - You have the full backup of management
 - You can afford the move and you cannot afford not to move!
- ◎ And all of the above **should be done before using the S&T** to get the detailed Strategy plan!