

## STRATEGIC DECISIONS: YOU CAN'T ALWAYS BE RIGHT

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No matter how well informed you are, how careful you have been in specifying the problem, how much data and information you have collected, how systematic you have been in the decision process, it is possible you will make a mistake – a wrong choice. How can you frame the decision and proceed through the decision process to reduce the consequences (as well as chances) of making a mistake, and how can you transform a mistake/failure into a success.

In essence reducing the consequences of making the wrong choice is all about framing the decision making process as learning – learning by doing. First, most strategic decisions can and should be structured using an “options” framework - - a multi-step process where initial financial and resource commitments are limited; insights are obtained from the results of the initial “experiment” so as to learn how to proceed; and time is managed to gather additional information before further commitments are made. This options approach is structured to reduce the downside exposure or potential loss of a decision, but maintain and expand the upside potential. It is described in the venture capital world as “fail first, fail cheap, move on”. An options approach to strategic decisions is in stark contrast to the “big bet” approach - - a full blown upfront commitment of time and resources to a project or venture.

Second, capturing the most information and insight from the initial experiment or option requires a systemized structure for learning - - what McGrath and McMillian describe as discovery driven planning. In reality, this process is a structured sequencing of planning the experiment, implementing that plan, learning from the experiment to update/modify the plan, developing a revised plan, and continue this cycle until a full commitment “go or no-go” decision is made. The planning is structured with the “end in mind” using reverse financials and deliverables specification supported by an assumption checklist. A reverse income statement is structured as inferred. First the income or profit expected/needed to justify a commitment of resources (time, financial, etc.) is specified. Then revenue or sales required, margins needed and costs allowed to meet this income profit expectation are specified. Finally, the financial and managerial resource commitments needed to generate the specified income/profit are calculated to verify that the project/venture will meet the ROA goals/objectives.

The deliverables specification is a listing of the activities needed and the costs and resources required for each activity to deliver the product/service offering to the customer to generate sales and revenues. This listing will result in an assumptions checklist that can then be used to assess the results of the experiment to determine where actual performance deviates from that required for a successful launch. Table 1 summarizes the key assumptions that should be

included in the checklist. This reality check is then used to inform the next interaction of the planning/experimenting/learning cycle.

Finally, some projects/initiatives won't succeed - - after the experimentation has occurred, the best decision is to not proceed with the full-blown commitment - - to not exercise the option to fully fund the project, or to exercise the option to shut down the plant or terminate the venture. In an uncertain environment, it is essential to prune or cutback activities or initiatives when the business climate changes, the market doesn't develop as expected or the financial performance doesn't meet expectations, Transforming a shutdown/termination decision from a "failure" to an event that creates value for the company requires a disengagement plan. Such a plan should contain at least four components:

- 1) A concrete plan and honest discussion with disappointed stakeholders including investors/shareholders, employees, lenders, suppliers, and customers and the distribution channel as to how and why the shutdown decision was made and what will be done to minimize the negative impacts that decision will have on them.
- 2) An analysis and synopsis of the insights obtained from the initiative that might inform future decisions and current/future projects or activities. This analysis should include insights concerning product performance, customer responses, distribution channels, technology strengths or flaws, and strengths and shortcomings of people, processes, suppliers, partners and others involved in the initiative. The analysis would start with the original assumptions, proceed through new learnings and conclude with insights that will inform step 3.
- 3) A disengagement opportunity review should be performed to determine what knowledge and insights should be communicated to others within the company as well as those directly involved in the venture/business including employees, suppliers, distributors, partners and other stakeholders so that the full learning potential of the initiative is captured and catalogued.
- 4) Any remaining financial value of the venture/initiative should be captured through a spin-off, joint venture, licensing or sale of physical assets and intangibles such as knowledge or brand value.

**Table 1: Critical Assumption Checklist**

1. Business Model	<ul style="list-style-type: none"><li>➤ Cost, revenue, timing</li><li>➤ Obstacles and breaking through them</li></ul>
2. Market	<ul style="list-style-type: none"><li>➤ Who will buy and why: quantity, frequency</li><li>➤ Behavior of different segments (penetration rates)</li><li>➤ Market growth rate</li><li>➤ Cost and time to achieve market share and volume targets</li><li>➤ Distribution channels and access to them</li><li>➤ Price, product, functionality, service, marketing strategy</li></ul>
3. Development of product/service	<ul style="list-style-type: none"><li>➤ Time and costs</li><li>➤ Functional characteristics related to market need</li></ul>
4. Competition	<ul style="list-style-type: none"><li>➤ Advantage compared to competitive products</li><li>➤ Duration of advantages</li><li>➤ Type of competition faced</li><li>➤ Likely competitor response</li></ul>
5. Manufacturing and production	<ul style="list-style-type: none"><li>➤ Ability to control costs/quality</li><li>➤ Service requirements and costs</li><li>➤ Ability to produce at scale</li><li>➤ Availability of people with required skills/knowledge</li></ul>
6. Financial	<ul style="list-style-type: none"><li>➤ Development time/cost</li><li>➤ Cash required to reach breakeven</li><li>➤ Investment required to reach profit goal</li><li>➤ Cost/profit/loss at different volume levels</li></ul>