Strategies for Profiting from the Trends That are Transforming Our Industry and Markets

AANB Continuing Education
June 18, 2012

There’s NO Silver Bullet!

Sorry …
Strategies for Profiting from the Trends that are Transforming Our Industry and Market

Back to “Normal”?

or ...

A “New Normal”?

“... everything about the structure of the Canadian construction industry, internally and externally, is going to change.” Geoff Smith, CEO, Ellis Don
"Get Outside of Your Comfort Zone"

And when the first heart attack comes, it's amazing how many people find the self-discipline to start living right.
Strategies for Profiting from the Trends that are Transforming Our Industry and Market

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Crisis

Why?

“If you don’t know where you are going, you’ll likely end up somewhere else.”

— Yogi Berra

FOCUS

Why?

- You wouldn’t start building without a plan ...
- Focus your ideas, dreams
  - *maintain* focus = consistency
  - *consistent* application of resources
  - *consistent* messages from entire team
- Markets
- Services
- Character and culture
- Competition
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Why?

- Value
- Manage Growth
- HR recruitment/retention
- Transition and succession
- Financial success - sustained profitability
- Financing
- Personal and professional fulfillment

Importantly...

While maintaining consistency and focus, a solid strategy, effectively implemented and monitored ... ensures you adapt to changing times in a controlled, managed way

“No.”

“Too many firms have made growth and size, rather than differentiation, their strategic priority.”

"... it is certain business decay if you try to please all market segments.”

“If you can’t afford to say no until you’re successful and distinguished, then you’ll never be successful and distinguished.”

David Maister
Branding and culture are two sides of the same coin.

“Branding and culture are two sides of the same coin.” Zappos CEO Tony Hsieh

“Culture Creates Experience. Experience Creates Brands. Brands create value.” Bruce Philip

Components of Business Strategy

Four key questions ...

1. What do we do?
2. What value are we creating and delivering?
3. For whom do we do it?
4. How do we excel at doing it?

... regular, formal review ...
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How?

- Inputs – *incl. outside of the industry*
- Consider impact on your business
- Opportunities
- Risks
- Create possibilities
- Weigh the options e.g. cost/benefit analysis
- Decide
- Tactics and execution

Strategic Plan

- Mission
- Vision
- Strategic Objectives
- Key Performance Indicators

Mission

Description of the purpose of the organization.

- “To change the world through technology”  
  - SONY
- “We excel at moving people”  
  - GO Transit
Vision
Graphic depiction of the future state of the organization.
- Defines the culture, reflects beliefs and values
  • “The Network is the Computer” - Sun
  • “McDonald’s vision is to be the world’s best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness, and value, so that we make every customer in every restaurant smile.”

Hubbert Curve
Opportunities? Threats?

- capital cost increment less than believed
- innovation and risk
- new tech
- construction process
- new complexities
- specialists? Design, construction, ops ... – LEED® AP
- need for robust systems
- durability
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Living Building Certification

- Net-zero x 3
- No water from off site
- No energy from off site
- No waste sent off site

Opportunity – Recladding/Reskinning

Source: Graeme Stewart / ERA

The PROGRAM

Sustainable design, green building, and energy efficiency.

LEADERS
- Owner
- Developer
- Contractor
- Owner/Developer
- Owner/Developer/Contractor

OWNERS
- Owner/builder/developer
- Owner/builder/developer
- Owner/builder/developer
- Owner/builder/developer
- Owner/builder/developer

CONTRACTORS
- Owner/builder/developer
- Owner/builder/developer
- Owner/builder/developer
- Owner/builder/developer
- Owner/builder/developer

PUBLIC OBJETIVO

VENINDI es una empresa cuyos objetivos son mejorar la calidad de vida de los residentes, descentralizar la actividad económica y fomentar el desarrollo local.

KENAMON
- Presidente
- Ing. Civil
- Arquitecto
- Ejecutivo
- Ingeniero

VENINDI es una empresa que se dedica a la promoción de inversiones en el rubro inmobiliario, en especial en el desarrollo de proyectos que contribuyan al bienestar de la comunidad.

www.venindif.com
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Defossilizing Fuels
- Transportation: Fitter Vehicles, Smarter Use
- Buildings: Design for Better Living
  - Understanding Today’s Building Quagmire
  - The Efficiency Revolution
  - The Conundrum and the Challenge
  - Solving the Efficiency Puzzle
- Industry: Remaking How We Make Things
- Electricity: Repowering Prosperity

Nuclear Fusion
- Beaming Power From Space
- Turning Waste Heat Into Tornado Power
- Capturing Efficiency Through Biomimicry
- Making Fuel Refineries Out of Algae
- Raising the Bar on Energy Storage
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$125 B

$200 B

50 yr Strategic Plan
3.1 > 5% of GDP
12% > 22% maintenance

Study is on the RCCAO website
Infrastructure

- Transportation and Transit
- Heavy civil
- Education – elementary, secondary, post-secondary ... satellites
- Research, commercialization hubs
- Hospitals PLUS ongoing redevelopment – continuum of care, LTC, community-based
- Social and affordable housing
- Culture, tourism, justice, social ...

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Building buildings is better than talking about buildings.

Vishaan Chakrabarti Joins SHoP as a Partner
SHoP Monograph "Out of Practice" Available Now!
SHoP is One of New York Magazine's Reasons to Love New York

46” iPads with in-office fabrication
R and R
Meet and Eat
Show and Tell
Outside In
Social Events
Orientation
Professional Development
Communication
Mentorship
Bonuses
Health Benefits
Retirement Benefits

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Our oldest grandson, then 7, asked “Nana, what’s that?”

Nana answered and then explained how it works.

“It looks really old, Nana.”

“Yes, it’s almost 25 years old!”

“Does it still work?”, he asked, being so used to his parents getting a new cell phone or laptop every two years.
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IT

HeliOptix
NEXT GENERATION SUSTAINABLE TECHNOLOGIES

GOALS AND OBJECTIVES

HELI OPTIX WILL ENGAGE THE BUILDING AND SOLAR MARKET WITH A BUILDING INTEGRATED PHOTOVOLTAIC TECHNOLOGY CALLED THE ICIF SYSTEM.

Designed as an architectural day lighting system the ICIF System will be the first to ensure integrated concentrating solar modules within a double glazed building facade panel.

- The system performs as a dynamic shading device to reduce solar gain and enhance interior lighting conditions.
- ICIF System will effectively reduce operating expenses associated with cooling and lighting demands and extend the useful life of interior shading and day lighting assemblies.
- As a result of lowering heating and cooling loads on the building, the ICIF System will allow for reductions in HVAC tied associated with lowering of mechanical equipment during the design process.
- The modules track the sun to maximize solar collection for conversion into usable energy at the source, avoiding transmission less typical of traditional centralized distribution.

info@heli-optix.com

- Significantly reduced peak periods consistent to conventional photovoltaic systems will attract tenants in high volume, high energy efficient buildings through sustainable upgrades.

G. Works

G. Works™ SERVICES

We offer all of the services needed to make buildings more efficient, from G. Works™ building analysis and modeling, through G. Works™ lifecycle planning and sustainability and incentive compliance services, to installing and commissioning energy conservation measures. We continue a legacy of ICIFOptix™ solutions for each client, starting from a targeted lighting study to a full-scale LEED implementation. Our Phoenix staff takes work results in a G. Works™ Action Plan, which provides a “path-get” decision path for proceeding with Phase II implementation work.

ANALYSIS

IMPLEMENTATION
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RISK
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"Risk Management"

"the art and science of recognizing, preventing, and mitigating threats and uncertainties"

• assumes that threats and dangers are identifiable and manageable
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Risk Management ... **NOT!**

“I’m sure things will work out just fine!”

A Few Examples of Owner Risks

- Policy
- Project Strategy
- Site
- Approvals
- Finance
- Design
- Bid
- Construction
- Completion
- Commissioning
- Life Cycle
- Operational

Private Sector Risks

1. the "usual" business risks
2. project risks
3. risks “unique” to design and construction
4. "design professional" risks

Private Sector Business Risks (twists)

- structural/organizational
- financial
  - P/L, A/R, A/P, cash flow, balance sheet, operating line
- business development
  - rfp’s, bids, markets, specialize/niche?
- human resources
- insurance
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Private Sector Business Risks

- legislation/law governing business
  - Proposed Accessibility Standard for Information and Communications
- political, public policy
- IT
- technical performance
- reputation
- quality management
- not to mention ...

So, TRANSFER what risks???

- Schedule *
- Budget *
- Finance
- Owner’s consultant’s liabilities
- Accuracy of site info.
- User/owner changes
- Changes in law, codes
- “Fitness for purpose”
- Maintenance
- Subsoils
- Environmental
- Operational
- Innovation
- Energy Performance and Energy Costs
- LCC and performance
- ...

Private Sector Project Risks

- pursuit
- programming, planning and pre-design
- approvals
- project finance
- design and documentation
- bid and award
- construction phase
- post-construction and occupancy

Private Sector Risks “Unique” to Design/Construction of Buildings

- rapid, endless ‘churn’ in building technology
- delivery models = DBB, DB, CM, P3
- form of contract
- Green and sustainable design, incl certifications such as LEED®, Green Globes™
- innovation
- the “weakest link” in the team
- adversarial relationships
Risk Shifts in Traditional DBB

Shift in Risks

New Risks

- Information Technology
  - CAD, Project Internets, BIM
- Building Technology
  - New or unproven products/systems
  - Sustainable Design
- Perfection
- Innovation in a litigious world
- Finance
- "design"

Largest Risks for Designers

"The study found that design errors were the most common allegations that triggered claims (involved in 35 percent of the claims), followed by errors in specifications, construction observation, inspection services, surveying, building code interpretations, shop drawing reviews and cost/quantity estimations. However, when it came to settling matters, technical issues were involved in 20 percent of all claims while everyday business practices related to the majority of claims."

DPIC Companies - 2000
Risk as a "Professional"

- personal responsibility
  - Limitations Acts
- standard of care – litigation, licence
  - the watchfulness, attention, caution and prudence that a reasonable person in the circumstances would exercise
  - standard is higher than for a member of the public
  - standards set by profession
  - expert testimony
  - risk as an employee

Experience ...

Manifestations of risk transfer – a few examples

- inappropriate, unbalanced indemnification
- uninsurable risks
- excessive bonding or insurance requirements
- demand for unrealistic warranties
  - e.g. perpetual warranty
- no provision for contingencies
- "no change orders"

Experience ...

- "just shoot me now" contracts
- "reverse auction" procurement
- liability for third parties
- responsibility for changes in Codes, etc.
- guarantee of obtaining approvals
- elimination of ADR
- unbalanced termination provisions

Just one example ...

Just one of the many 'objectionable' requirements in a recent Ontario RFP for architectural services ...

If at the conclusion of the bidding process in stage 4, the lowest compliant bid received exceeds the cost provided in the bidding documents by an amount (the “Overage”) greater than the contingency reserve, in addition to the remedies contemplated in GC3 (as modified by these terms) the Board may set-off the Overage against the fees owing to the architect (the “Set-Off”). If there are insufficient fees owing to pay the Overage by way of the Set-Off, the Board may require the architect to reimburse the remaining Overage.
So, TRANSFER what risks???

- Schedule
- Budget
- Finance
- Own Consultant liabilities
- Accuracy of site info.
- Users e.g. changes
- Changes in law, codes
- “Fitness for purpose”
- Maintenance

- Subsoils
- Environmental
- Operational
- Innovation
- Energy Performance and Energy Costs
- LCC and performance
- ...

Taking on and Managing Risk

1. Identifiable
2. Measurable
3. Manageable
4. Reward

“The Right Balance”

Risk AND REWARD

Risk Management Principle 1

Decisions

©2009
Risk Management Principle 2

80/20

Vilfredo Pareto 1848-1923

Risk Management Principle 3

Balancing Risk

AND REWARD

Risk Management Principle 4 = Strategy

1. Identify
2. Assess and evaluate - What if?
   - Likelihood - 80/20
   - Impact
   - Responsibility/accountability
3. Make the Decision
   - Prioritize
   - Plan (Reduce, Reject, Transfer, Retain/Manage)
4. Risk Management Plan
   - Implement
   - Monitor

Risk Assessment Table
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Risk Assessment Matrix

- Highest Overall Risk
- Lowest Overall Risk

Risk Assessment Table (rev)

Risk Register

- Description of Risk
- Probability
- Impact
- Risk Factor
- Response
- Mitigation
- Monitoring

A final word ...

Communication
Aggressive Procurement Strategies

- For builders, "Supplementary Conditions from hell"
- For designers, "RFP’s from hell"
- reverse auctions – construction AND design
- Lowest, LOWEST, LOWEST PRICE
- One-sided contracts

Collaboration

Service and Ops

<table>
<thead>
<tr>
<th></th>
<th>95%</th>
<th>5%</th>
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<tbody>
<tr>
<td>Design/Construction</td>
<td></td>
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<td>Asset Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Underperforming

[Graph showing productivity trends over time]
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Underperforming

Profitability

Design Build

Public Private Partnerships

Owner

Design Builder

Designer

Advisors

Public Owner

Consortium

Contractor

F/M

Equipment/IT

Operators

Designers

Energy
Bundling? Think about ...

- Regional economic benefits/impact
  - Short AND long term
- Protecting Traditional Markets for Local Industry
- Local Knowledge and Local Relationships
- Local capacity
- Attract knowledge from outside local area that would improve outcomes?
- Broader economic benefits

“bundling”

Bundling? Think about ...

- Project specific conditions calling for bundling?
- Similarity of work
- Public interest not compromised
- Value for money
- Economies of scale/cost efficiencies
- Fair and transparent procurement practices
- Schedules
- Financing?
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Bundling? Think about ...

- O and M component calling for bundling?
- Design consistency
- Design quality
- Risk allocation
- Build quality
- Maintaining local knowledge and competition
- Efficiency in PM

SHARED

- vision
- objectives
- risk
- ... and reward

Project Alliance

Profit

Corp OH

Proj OH

Direct Proj Cost

Gain

Pain

$2

$1

$3

Performance Contracting

Maximum Incentive

Base Fee

Target

Beat the target

Miss the target

Maximum Penalty

Metric (e.g. Annual Cost of Energy)

Design Fee

Profit and Corp OH at risk (pain)

Potential Gain if improve on “targets”
Integrated Project Delivery

Project = Shared Goal
Shared Risk and Reward

IPD – Input Early

LEAN Project Delivery

Lean Construction Institute

“Way of thinking and behaving that focuses on the customer or client to add value and eliminate waste.”
LEAN Opportunities and Benefits

3 Opportunities

- Impeccable coordination in design, construction and between design and construction
- Project unfolds as a production system
- Project shared as a collective enterprise

... benefits

- 20-30% schedule saving through managed trades
- Decreased cost, less contingency
- Jointly manage risk
- Better relationships with Clients and Owners
- Greater quality design and construction
- Increased safety

LEAN P D

- Define "Value" for Client
- "Waste" = resources that don’t build value
- "Make only what the customer ordered"
- Time + Money + Quality – all three!
- Team
- Share Risk and Reward – target value
- "Pull Planning" – make project run seamlessly
  - Designing, planning, managing, building
- "Last Planner"

Schedule Challenges

The traditional "push" schedule says:

- P and E Rough
- Slab on Grade
- Wall studs
- M, E, P Rough

Schedule Challenges

But what REALLY happens ...

- P and E Rough
- Slab on Grade
- Wall studs
- M, E, P Rough

Granular base not ready on time so concrete delayed
Drywall contractor showed up but couldn’t work ... Sorted materials in the trailer then left ...
then came back but had to leave for another job ...
then came back but smaller crew ...
M, E, P arrived, couldn’t do much ...
Downsized crew ...
Result is it all drags out ...
The LEAN Key

• Manage the trades more efficiently
• Use "pull" planning ... When will work be at the point where the next trade can arrive and work productively? i.e. "hand-off"
• Commitments to those dates because everyone has “skin in the game” – sharing the incentive $$ ... or sharing the pain!
• "Last Planner" in LEAN planning
  – Actual trades are involved in planning

The LEAN Key – Planning!

• Master Scheduling
  – set milestones
• Phase Scheduling ("Pull")
  – Define hand-offs and satisfaction metrics
• Look ahead planning
  – Break down tasks (trades!)
  – Design operational plan
  – Identify and eliminate constraints
  – Analyse tasks made ready, tasks anticipated

The LEAN Key – Planning!

• Look Ahead Planning
  – IMPORTANT! – act on reasons for failure i.e. learn from failure ... Continuous improvement
• Weekly Work Planning
  – Realistic commitments from all form a network of commitments to each other
• Learning
  – Maintain a constant cycle of measure, analyse, learn ...
  – Then design and execute solutions

LEAN Risk Management

• Risk is fairly shared ... Risk managed by the party(ies) best able to manage it
• In traditional delivery we try to imagine all the risks up front, then build robust contract provisions hoping to shift the risk
• In LEAN and Integrated Project Delivery, we minimize overall risk by reducing unknowns working together through the project
Characteristics of LEAN and IPD

**Design**
- Design what owner values
- Draw only for deliverables
- Budget used as a critical design criterion
- With trades involved from outset, real-time, realistic costing – "target value design"
- "Pull plan" information exchanges
- Delay decisions until you really need to decide

**Construction**
- Teams formed early
- Core group (with skin in the game) manages
- Target Value Design continues
- "Pull plan" delivery
- Built in safety and quality management plans
- Integration of trades to create "flow"

LEAN P D

- Target Value Design
  - Determine "usual cost" of project, commit to reduce by %age – that’s the incentive envelope
- Manage one contingency
  - Rather than all parties, trades, suppliers, etc. each carrying their own, with no central management
- Save labour through efficiency
  - Savings shared among that core group with "skin in the game"

Key Point ... Contingency

- In lump sum construction contract, all in the supply chain carry a contingency
- Designers build contingency into their budgets
- Owner carries a contingency
- All separately "managed", "secret"
- If a trade works more efficiently, it keeps the benefits to itself

Key Point – Sharing Benefits

- In lump sum, if a trade can work more productively, it keeps all of the benefit to itself
- Meantime, no incentive for others to enable that trade to work more efficiently
- In LEAN IPD benefits are shared by all of the parties with ‘skin in the game’
- Core group is managing for mutual benefit, best project outcome
For instance ...

- Two storey high-end industrial building with lots of plumbing from below-grade to 1st and 2nd floor and through roof
- Plumber and structural devise a scheme where plumber can prefab stacks off-site and erect in coordination with structural steel
  - Major $$$ savings on plumbing
  - A bit extra $ on structural
  - Whole team shares the savings!

Illustration ... 

- Budget $10,000,000
  - Labour $3,500,000
  - Materials $3,500,000
  - FFE $600,000
  - Design/PM $1,000,000
  - Permits, Bonds, Misc $400,000
  - Contingency $1,000,000

Illustration ...

<table>
<thead>
<tr>
<th>Category</th>
<th>Traditional</th>
<th>Improved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target Cost</td>
<td>$10,000,000</td>
<td>$8,300,000</td>
</tr>
<tr>
<td>Labour</td>
<td>$3,500,000</td>
<td>$2,800,000</td>
</tr>
<tr>
<td>Materials</td>
<td>$3,500,000</td>
<td>$3,500,000</td>
</tr>
<tr>
<td>FFE</td>
<td>$600,000</td>
<td>$600,000</td>
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<tr>
<td>Permits, Misc</td>
<td>$400,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>Contingency</td>
<td>$1,000,000</td>
<td>$0</td>
</tr>
</tbody>
</table>

(improve labour productivity 20% + manage without contingency = 17% less)

Ah, but who benefits??

- Traditional stip sum delivery ...
  - That 20% increase in productivity in labour, even though others have contributed innovative ideas, to a large degree enabled the savings, would all go to the labour component ... While the real cost of the labour has been reduced by $700K, labour still gets paid the full amount ... and pockets all of those savings
Ah, but who benefits??

- LEAN/IPD
  - Those savings are shared among the core team according to the formula negotiated at the outset of the project
  - PLUS ... by avoiding multiple contingencies, without central management (central control) AND by agreeing to exclude the contingency from the budget, the core team also can share in savings from contingencies

Note re Contingencies

- Not to suggest that there won’t be additional costs – it’s still a construction project, after all! ... The difference is that the target of the core team is to minimize those additional costs through:
  - Improved planning and execution
  - Innovation
  - Greater efficiency and productivity
  - Collaborative problem-solving

What it looks like ...

1. Owner and advisors prepare business case
2. Programming and design sufficient to prepare global estimates
3. Core Team assembled ... Owner, Design Team, Construction Team, Major Trades
   - They collocate to facilitate collaboration
4. Design continues to establish Preliminary Cost

What it looks like ...

5. Major suppliers added to process
6. Validate Expected Cost (under traditional process)
7. Target Value Design process continues to identify achievable Target Cost
8. Construction underway ... Core Team collaborates to protect maximum savings between Target Cost and Final Cost
9. Core Team shares savings
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Ark Hotel Construction time lapse building 15 storeys in 2 days (48 hrs) by efficiency.

No stationary construction cranes needed.

More news on Yahoo!
- Firey plane takes incredible photo of space
- Video: Dennis Rodman goes very wrong.
- Singer’s pregnancy news leaked through Twitter!
Consolidation

"Everyone is going to continue to invade each other’s space."  Geoff Smith

Diversification
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Specialization?

1873 Long Depression
  • First Reset
1930s Great Depression
  • Second Reset
2008 Great Recession
  • Great Reset
1873 Long Depression
  • First Reset
  • Shift Agriculture > Industrialized
  • Urbanization

1930s Great Depression
  • Second Reset
  • Innovation/Mass Production
  • Suburbanization “Mad Men”

2008 Great Recession
  • Great Reset
  • Manufacturing > Knowledge/Idea-based
  • Service jobs > Middle Class
  • Consumption patterns e.g. Home ownership/car ownership
  • Infrastructure e.g. Transit
  • Megaregions plus Greater Density in Suburbs
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Adaptive Reuse
Government Policy

- Affordable Housing …
- Carbon Tax vs. Cap and Trade
- Climate change and sustainability
- Globalization
- Immigration policy
- Green Belt/Planning Legislation
- "red tape world"
- Infrastructure investment

Government Policy

- Accessibility Standards in Ontario
- Building Codes
- Bank of Canada
- AIT
- Regulatory
- Municipal bylaws
- Design review by municipalities

“Economy Spinning Its Wheels…”

Canada Industry-Based GDP July11 (seasonally adjusted)

Source: Alex Carrick, REED  October 11 2011

Trends in Our Sector

Construction Starts – Moving 12 Months – September 2011
Components of Business Strategy

Four key questions ...

1. What do we do?
2. What value are we creating and delivering?
3. For whom do we do it?
4. How do we excel at doing it?

... regular, formal review ...

“The necessary outcome of strategic planning is not analytical insight but resolve to accomplish something.” — David Maister
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www.strategies4impact.com