

THE BUSINESS OWNER'S JOURNEY

Part 4: Outside Threats





At this point, the business has made it through the greatest internal hurdles. After mastering the rapid growth cycle and finding new ways to overcome declining growth, the business will find itself in a perpetual tension between rapid growth of new launches and the inevitable declining growth of the same. If you have survived to this point, you have realized that continuous improvement and innovation are your operation's life blood. Now external threats play the leading role in successful strategic planning.

By definition, external threats are those elements that could adversely impact your business performance, but which are outside of your team's ability to directly control. Such factors include, but are certainly not limited to economic performance, consumer preference, disruptive new offerings, foreign entrants, and the like. While all of the above threats are relatively universal, every industry also faces a host of

specific external threats, such as regulatory threats, geographic/environmental, and so on.

Successful businesses are the ones that are able to leverage awareness of these factors and incorporate mitigation and contingency plans into their strategic planning and tactical implementation efforts. Rather than operating within a paradigm of fear of the unknown and reactivity to external forces as they deal damage, these organizations have the peace of mind that they have early warning mechanisms in place as well as plans for leveraging occurrences to their benefit. Hearing this, the big question becomes,

How do I guide my team to
become one of those resilient
organizations?

This eBook is dedicated to addressing this one crucial question.

Taking the first step:

Identification and Prioritization

The most important thing that you and your team can do to get started is to begin exploring what externalities are likely to influence the future success of your operation. Some critical questions to explore are as follows:

- What external factors have impacted our business or industry in the past?
- What were the most extreme consequences of these events?
- How did your business and the industry overcome these impacts?
- What new circumstances exist that are affecting your organization or industry?
- What are the worst possible manifestations of these changes for your operation?
- How can you employ the expertise of your team to capitalize on these changes?
- What future events are likely to impact your organization or industry?
- What are the worst possible manifestations of these events for your operation?
- How can you employ the expertise of your team to capitalize on these changes?



Once you have taken an honest look at your operation in the lens of the past, present, and future; you and your team are in a position to begin the process of prioritizing the findings. When trying to prioritize events, it is helpful to first score each threat that you listed on it's likelihood, and the magnitude of impact on your business. We typically recommend a 1 – 10 scale for this exercise to afford greater differentiation between items. If the list is very long (greater than 50 items) you may wish to increase that to a 1 – 20 scale. Here is an example of a typical operational threat assessment:

	Impact Categories					
	Revenue	Working Capital	Infrastructure	Human Capital	Growth Options	Risk Score
Consumer Preference	10	7	1	5	7	60%
Technological Disruption	8	10	10	3	6	74%
Regulation	4	6	5	1	8	48%
Tax Reform	6	6	1	9	1	46%
New Entrants	7	8	4	6	3	56%

In this example, the greatest external threat is technological disruption. With that identified, the organization would be strategically advised to consider both the landscape for technological

innovation within their industry and relevant adjacent industries as well as taking stock of their internal capabilities. Challenge your team to determine whether or not your organization is capable of delivering the disruptive technology that will leave your peers behind.

Taking the next step: Strategic Planning

With external threats identified and prioritized, it is time to bring the team together to develop strategies to address and mitigate these threats. As you have seen in the preceding example, this assessment may lead to new initiatives, but that will not always be the case. As with any strategic planning endeavor, the team must first determine where they are hoping to end up. This will help you to prioritize where to spend your limited resources. For example, if your operation is looking to grow into a specific market, your strategic plan will be markedly different than if you are looking to create a new market, or simply establish a decent



lifestyle business. In each case, resiliency in the face of external events is crucial, but a lifestyle minded organization will not be nearly as inclined to invest in developing disruptive technology than a blue ocean minded team.



It is important to keep the big picture in mind, and to consistently plan according to this vision so that the entire team knows where the organization is headed. Having the culture built around this clarity of vision has the added benefit of offering everyone a sense of ownership in the common goal, when developed and communicated properly. If this is your team's first



formal effort in strategic planning, you may need to go back to the risk assessment ranking matrix and adjust it according to your vision to arrive at a new impact prioritization. From here, break your long term (10 year) vision into incrementally shorter-term milestones. For example, what will your organization need to look like three years from now to be on track for the ten-year vision? What about one year out, and then the next quarter? This incremental zooming in of milestones will ultimately get you to the tactical stage of planning.

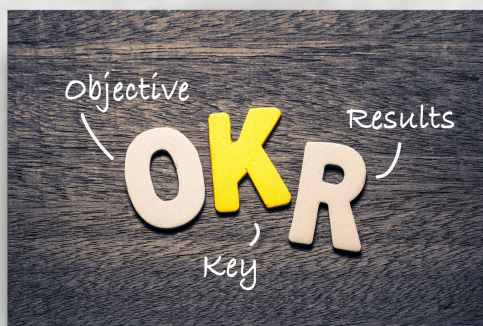


Taking the final step:

Tactics and Implementation

(apply, lather, rinse, repeat)

Once you know what your team needs to achieve in the coming quarter to be on track to achieve the vision, it is good to parcel specific targets to functional teams. Our team uses the OKR (Objectives and Key Results) tactical planning methodology working with every member of our team to arrive at three OKRs per team member that will move the needle. We meet weekly to assess progress, to discuss successes and hurdles as a team so that we can all learn from one another, and to refine our processes with the proven best practices.



Whether our OKRs are centered on external threat mitigation efforts, growth and innovation initiatives, client relations, or any other aspect of operating a durable organization, the consistent practice of establishing targets, tracking progress, and sharing challenges and best practices will foster an environment of Kaizen thinking. This culture of individual ownership in continuous improvement is an organization's single greatest weapon to address and overcome external threats.

As we have seen in the many economic cycles and bubbles, it is hard to know where the next external circumstance that has a significant impact on your operations will come from. This section of The Business Owner's Journey is being written in the late stages of the COVID pandemic which has left an indelible mark on the global economy. This is the first time in history where the global community quarantined the healthy, and this sparked a recession that affected industries and the economy in a progression never seen before. While the impact on privately held business has been disastrous and



unprecedented, this is not the first time the vulnerability of privately held businesses compared to that of their mega-corporate peers has been demonstrated by externalities. It is high time that we as business owners recognize that we are not relegated to this fate. Our competitive advantage has



been and will always be held in the agility that our small size affords us. If we all exercise the diligence of assessing and addressing our exposure to external threats such that we can plan contingencies and mitigation strategies, we will be more resilient when the next calamity strikes.



External Threats: Building an Impact Matrix

Step 1

Identify the categories within your organization that are most likely to be impacted by external threats.

Begin by making a list of every category that you and your team can think of and then combine related entities until you have between 4 - 6 representative segments. Place these in your matrix as the column headers.

Step 2

List your identified external threats as row headers.

If you haven't identified these, see the list of questions under the heading "Identification and Prioritization" in this document.

Step 3

Rate the degree of impact for each category and every threat.

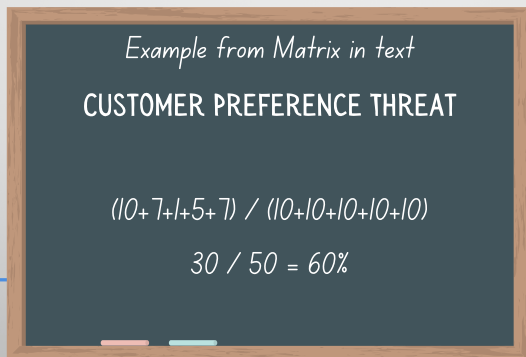
Use the convention 10 or 20 (depending on the size of your matrix) as maximum impact and 1 as negligible impact.

Step 4

Create a risk score column at the end of the matrix. Tabulate risk score using the formula

Sum of all impact scores in the row / the maximum possible impact score for that row

presented as a percentage.





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