

The science of strategy

You were warned this was coming. This piece reveals my personal thoughts on the power of strategy, hopefully in a way that you can apply to your own or any business. As you might expect, I am most comfortable talking about my own mistakes and what I learned from them.

In 1976, the lobster industry did not need two young guys who were completely ignorant of the business and had nothing to offer but hard work. We offered fishermen more than the going rate so they would sell us product; we sold for less than the going rate so customers would buy from us. It took us a few years of working as hard as we could to realize this was a stupid strategy. We needed a different strategy, one focused on developing value for which customers would pay a premium and allow us to earn a return. Our commitment to a year-round quality supply (underpinned by a unique long-term holding facility) was the differentiator that did indeed earn us a premium. But this value creation was not material and therefore that premium was not material. That experience taught us a lot.

The second leg of this strategy lesson was resident in our company becoming a consolidator of smaller enterprises. The larger scale enabled the rigorous trimming of costs and the addition of more sophisticated global marketing. We weren't creating new or incremental value for customers—we were doing it for ourselves by operating at lower costs.

Then there was Ocean Nutrition. The company arrived on the omega 3 scene when that sector was in its infancy. Consumer awareness was low and the industry was fragmented. Our strategy was to grow consumer awareness and, more importantly, take advantage of the distribution network's lack of understanding of what omega 3s were all about, what health benefits they could provide, how they needed to be processed and packaged and how the consumer should be educated. To do that we built a large, sophisticated marine products lab and invested more heavily in R&D than the rest of the industry combined. We didn't go to the market selling on price; we sold our knowledge and quality. Our entry point to a retailer was often based on providing them with an assessment of the deficiencies of their current supply stream. The retailers didn't know what was in their offerings and most often neither did their suppliers. We became the go-to resource for industry knowledge and used that to secure a premium price.

Then there's Columbus Communications, founded in 2005 to deliver world-class



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telecommunications services, coupled with good customer service and globally competitive prices to a region which had none of those features. We now do business in 21 countries in Latin America and the Caribbean and our value creation model remains exactly that. Our customers get the latest and greatest and at the same prices they would find in New York or Toronto. Naturally the rest of the industry and our competitors have chased us but the assets employed in this business aren't built overnight and we only built the best from the start. We understand we need to also elevate the game on customer service and that requires continuous improvement. But we have created real value for our business and retail customers and we earn a fair and safe return doing so.

So what are the generic lessons here, lessons which we apply to the other businesses now in our group? First and foremost, what is your point of difference? If your product or service isn't really that different, you won't earn any money. What is your customer's perception of the value of that difference? If the value ascribed by your customer is small (as in the lobster example), your profit margin will be small. How defensible is the value proposition? If others can easily copy it, once again margins will be small. The more difficult it is to duplicate, the greater your margins will be.

Science and R&D are the source of huge potential value creation in virtually any industry. Those who don't believe their industry is a candidate for new products, re-invented processes, fresh thinking and real innovation won't survive. Those who survive will be brave enough to think about how an industry can be re-invented or where traditional players have missed the boat, and then act on their ambitions.

So sit down and think about your strategy as it currently exists. Do this carefully, not over a couple of hours but over several weeks and months. Talk about it with friends, with your management team, with existing or potential customers, attack it, debate it and all with an open mind. Then continue to do so, and keep that mind open because the world changes and so will your strategy need changing.

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