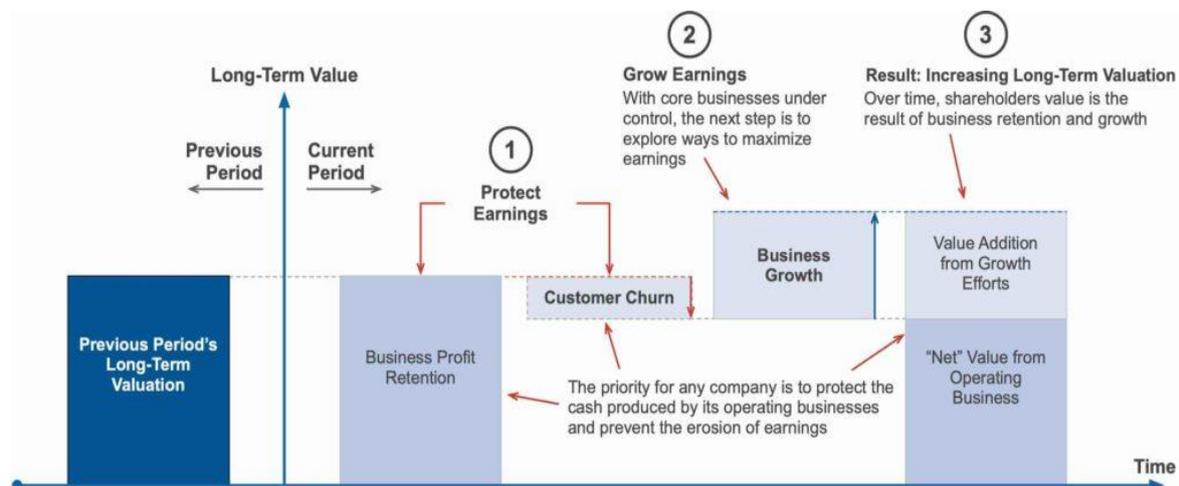


The Fundamentals of 'Business Strategy' - Part 2

The fundamental concepts of business strategy haven't changed much over the last few decades. What has been taught in business schools since the early 1980s are still the pillars that support most of today's strategy frameworks.

But rather than having changed, our knowledge of strategy has "evolved" significantly now that we've had the opportunity to experience longer periods of competition and to observe the rise and fall, sometimes miserably, of companies and businesses once regarded as the most innovative like Toys R Us, Blockbuster, Kodak and Border Books.

The starting premise for a successful business: there are only two things that management must do well - protect earnings from the operating business and maximise earning's growth over the foreseeable future. That combination of defend-and-grow is what builds an organisation's value over time, as shown in the diagram below.



Maximising shareholders' value takes a combination of initiatives to both defend and grow core earnings. That combination is what grows a company's valuation over time and is at the core of modern business strategy.

If during a given period management does nothing else but **to protect the company's earnings** from erosion and grow those earnings at the level or even higher than other high-performing companies (not only industry competitors), most people (especially shareholders) would agree that they have done a great job and that the business's strategy has been successful.

Secondly, let us remind you that **the profit formula only has three components: Price, Demand and Costs**, and that consequently, a good strategy is one that either helps us sustain premium prices or superior levels of demand, or one that help us lower unit costs.

A business decision that doesn't help you achieve either of those two goals should not be considered part of your business's strategy.

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