Strategy Means Saying "No"

By David Maister

I was helping a prominent global company explore the strategy of achieving high levels of client service. We were discussing ways of investing resources and redesigning processes to accomplish this goal. The longer the discussion continued, the more uncomfortable some members of the organization became.

"But what about the clients and customers who don't want all this high-touch contact?" they asked me. "What are we supposed to do with them? Won't we scare away a significant portion of our current customer base by doing things they don't want?"

"Yes, you will," I replied. "A strategy is not just choosing a target market, but is about actually designing an operation that will consistently deliver the superior client benefits you claim to provide.

"However, each decision you make to be more effective at delivering the preferences of those you target will (inevitably, inescapably, unavoidably) make you less attractive to clients or market segments that look for different benefits.

"But consider the alternative," I continued. "You could try to design your operations to meet a wide variety of preferences and needs, serving each client or customer group differently, according to their individual wishes.

"Your market appeal will then come down to 'tell us what you want us to do for you and we'll do that. We'll do something different for other people tomorrow!'

"You may get by with this approach, but you will be unlikely to achieve a competitive differentiation or reputation, except as people who, as long as they are getting paid, will do anything for anyone. Which is not an image I think you want to have."

Finally, someone said out loud what was on everybody's mind: "But do we have the courage to turn away business? Do we really have the confidence to tell paying customers that we are not right for them?"

My answer? "Not only should you do that, but the only way you *can* achieve any strategic distinction is to do that. Strategy is deciding whose business you are going to turn away."

The Focused Factory

One of the first lessons I was taught at Harvard Business School in the 1970s was Wickham Skinner's principle of the "focused factory." No operation, Professor Skinner pointed out, can be good at everything simultaneously.

An operation designed to provide the highest quality is unlikely to be the one that achieves the lowest cost, and one that can respond to a wide variety of customized requests will be unlikely to provide fast response and turnaround. Any business that tried to deliver all four virtues of quality, cost, variety and speed would be doomed to failure.

This is not just an operational point, but a marketing one. To be differentiated in the eyes of the marketplace, you have to be known for something in particular. It's not enough just to be known. (That's name awareness, which is not the same thing as being seen as differentiated.) And you can't have a reputation for being something specific if you only do it occasionally.

The very essence of having a strategy is being *selective* about choosing the criteria on which a firm wishes to compete, and then being creative and disciplined in designing an operation that is finely tuned to deliver *those particular virtues*.

Consider McDonalds. For any customer that truly places a premium on low cost and speed, McDonalds is hard to beat, because it has been optimized around a clear market positioning.

However, if someone were to walk into a McDonald's and say, "I feel like having a curry today," the service provider would not reply "Sure. That will increase our revenues. Let me shut down the grill and make you one."

Instead, the reply (except, perhaps, in India) would be, "I'm sorry, but we are not designed to meet every possible need. Perhaps I can help you find somewhere nearby that can give you what you want?"

As companies keep discovering to their cost, it is certain business decay if you try to please all possible market segments. The broader the group of clients to which you try to appeal, or the wider the range of services you try to provide, the less customized your operation can be to each segment within that group.

If you never say "no," you will just be one more undifferentiated firm, trying to do a little bit of everything and, as Skinner pointed out, will almost certainly be superb at none of them.

Why It's Hard

As obvious as this all may seem, translating it into reality can be very difficult. The practical reality of most businesses is that they find it very difficult to say "no" to a revenue-generating opportunity.

As Dick Tyler, managing partner of UK law firm Cameron McKenna, says, "The hardest thing in the world for most professionals to do is to turn work away. It offends our desperate desire to be liked by everyone and plays to insecurity that afflicts even the best of us. The moment we aren't worked off our feet, we think we'll never work again."

The situation has been made worse by many firms' explicit (if misguided) efforts to transform themselves into "one-stop shopping" operations with extensive efforts at cross-selling additional services to clients and customers.

Too many firms have made growth and size their strategic priority, rather than differentiation. Instead of identifying and executing a clear market positioning, many companies and firms have consciously pursued a policy of "If you need it, we can do it!"

Many have learned the costs of doing this—a lack of focus and reputation that, while it helps you get *more* business, may actively work to prevent you getting a reputation for being the place to come for the *best* business—the most attractive work for the most attractive clients.

Another concept they taught me about at business school was "the wheel of retailing." Apparently it is a common syndrome that new retail stores often succeed by establishing a differentiated positioning in the marketplace, but are then continuously tempted, in the name of pursuing revenues, into selling an ever-widening range of things to a continually broadening audience.

Eventually, the store ends up looking like every other general store, and is outperformed by new upstarts who go back to the core and establish focused shops with clear, differentiated appeal (and start the cycle all over again).

Staying focused and true to a strategy is something that has always been, and will always be, hard to do.

The hunger for volume (and the use of managerial scorecards that emphasize it) has meant that many individuals and firms are often uncomfortable with (or even shocked by) the notion that, to achieve a distinctive strategy, they will need to turn away work that a major competitor might reasonably want to serve.

"Oh, we don't want to take it that far!" they say. "Our strategy is to emphasize certain things, not to exclude others. If a client opportunity comes along outside the strategic areas we have chosen, we'll serve that client. We're under too much fiscal pressure to turn away cash opportunities. Can't we just develop a clear and crisp value proposition and then let the clients decide if they want to pay for it?"

My answer is that (as I argued in my previous article "Strategy and the Fat Smoker") you can't get the benefits of a strategy that you don't implement, and half-measures are unlikely to work. Strategy is not about understanding something—or planning to get around to it—it's about having the courage to make it happen. You can't let other people, even clients, determine the pace at which you create your distinctiveness.

A Personal Experience

When I first left my academic post at Harvard Business School and launched my consulting business, I was terrified. For the first time in my life, I had signed an office lease, and had my first employee.

I had this dream (more a hope at that stage) that I could distinguish myself from the general mainstream of management consultants by focusing on a particular sector—professional service firms.

However, one of the first phone calls I received was from a car manufacturer who was familiar with some of the work I had done while still a teacher in the more general area of customer service. How would I like, they asked, to provide training in retail customer service to their dealers?

You can see the problem. Did I want the cash? You bet! I was just starting out. But if I spent my time doing generic customer service training for car dealers, I wasn't going to make myself *special* as a consultant. I would be one more competent guy doing what any number of other people could do.

I had to make a choice. Did I believe in my own strategy and did I have the courage to spend my time making it a reality, or was I sufficiently insecure that I could be tempted away from my chosen strategy by the promise of cash?

I'm not saying the choice was easy, and I'm not saying that I was or am a better (or more noble) person than anyone because I turned the opportunity down and chose to pursue my differentiation strategy.

I *am* saying that facing such decisions is the very essence of what having a strategy is all about. If you don't have the courage, you will never achieve a differentiated strategy.

And, of course, courage is one of the scarcest commodities there is. That's why it's a significant source (perhaps the major or even sole source) of competitive advantage!

Excuses, Excuses

Even when people acknowledge all this, they still come up with many reasons why they think it is unwise (or even forbidden) to say "no."

Many people worry that it would be perceived as being unresponsive or tantamount to being a bad service provider if they were to decline to serve an existing client on a new need. They think that it would be taken amiss if they said, "We don't want to serve you in that additional area."

This, however, misses the point. What you say to the client is not "We don't want your additional work," but "We are not your best choice for that new need. We can do it if you insist, but you may be better served to go to a specialist who can focus on providing the particular client benefit you seek."

Done this way, you are likely to cement your relationship with that client, not hurt it, because you will have demonstrated your trustworthiness and your willingness to place the clients' interests ahead of your own short-term gain. If you really believe in the power of relationships, having a client that trusts you must be of greater economic value to you than having a group of clients who are always suspicious of your motives.

Thomas Davenport, author of ***Thinking for a Living,*** notes "I've seen a number of cases where turning down business actually helped the firm immediately. For example, when some top consulting firms turn down work because they do not think it can be done effectively without the involvement of the prospective clients' senior management, the client's middle managers will often redesign the assignment try to take it upstream to their top managers. So, by sticking to its guns, the providing firm gets more business of the kind that it prefers, and impresses the client with its strategic integrity."

Still many people are unconvinced. "Yes," they observe, "It may be more noble and a good way to earn trust, but doesn't it just allow a competitor to get his nose 'under the tent'? Once you let a competitor start serving your client, don't you run the risk of that competitor stealing your relationship? Shouldn't you work to keep your competitors out of dealing with your clients?"

The first answer to this is that, even if you tried to pull it off, it is actually impossible to keep your client away from all other providers. The typical corporation already uses multiple law firms, many consulting firms, many IT providers and numerous marketing communications agencies. The hope, in any of these professions (or any other), that you can keep everyone else away is delusional.

Secondly, the real-world truth is that you keep clients loyal to you by serving them superbly, earning their trust and making them want to have a relationship with you above all others. A person or firm would appear very insecure and not very impressive if they were seen to worry about the client talking to anyone else.

Strong, self-confident professional businesses who know who they are do not try to do everything for their clients. Ask the world's most profitable law firm (Wachtell, Lipton) to do a broad range of your legal work, and they will patiently explain that they should only be hired when you truly require the world's experts in their chosen field(s).

The same is true of top consulting firms like McKinsey. Almost certainly, in the course of their strategy work, they will uncover the need for say, training, or market research. Would they attempt to offer training and focus group services, merely to keep other management consulting firms away? Highly unlikely!

"Ah, yes," people say, "It's all very well to cite examples like that, but these are established, successful firms. They can afford to say 'no.' We can't."

There's a chicken and an egg problem here. If you can't afford to say 'no' until you are successful and distinguished, then you'll never be successful and distinguished.

Everyone has an excuse why they cannot make the hard choices, and why they need a special exemption. Small firms claim they should be excused because they are not yet established. Large firms, on the other hand, bemoan the fact that they have a big "factory" of people on the payroll that they have to keep busy.

Young people claim they cannot afford to take risks and be selective because they have student loans and are too junior to decline opportunities. Senior people point to their mortgage obligations, the need to pay the college fees for their kids and so on.

Everyone's got a reason why it's especially hard for them to be strategic and say no—and most of them are excuses, not reasons. It reflects a lack of courage and a risk aversion.

David C. Baker, who specializes in advising marketing communications firms, puts it this way: "If you are any good at all, eventually you'll have more opportunities than you can handle. Not choosing carefully between those opportunities is far more likely to harm you than the occasional opportunity that slips by because you say 'no.'

"You need to say 'no' to save your energy for the opportunities that are worth pursuing. Entrepreneurs, especially, have a hard time not pursuing any opportunity for learning and stimulation, but the successful ones are really choosy. Don't let panic tempt you."

What Does Management Really Want?

Perhaps the single biggest problem in achieving the implementation of a strategy is the difficulty of ensuring that everyone in the organization understands what the strategy is, and that top management really wants everyone else to follow it.

In the global meeting that I described at the beginning of this article, someone eventually asked, "How can the management of this firm ask me to achieve a distinctive market positioning while simultaneously pressuring me to meet budget numbers? Given a choice, and there is one, what do they really want me to do?"

If the strategy is to become real, then the answer from management must be, "We want both current cash and the benefits of sticking to a strategy. But if it ever becomes a choice, we want you to place execution of our strategy ahead of meeting the budget. Following this rule, and pulling off our strategy, we'll make more money, not less."

The CEO's message needs to be as unambiguous as Warren Buffet's description (to a U.S. Senate subcommittee) of his managerial philosophy: "Make an honest mistake and I will be understanding, but lose the reputation of the enterprise and I will be ruthless."

Needless to say, few top managers convince their people that this is what they truly want. As a result, strategies go unimplemented.

When helping companies develop new strategies, I frequently organize meetings with anonymous voting machines. After everyone has voted for the strategies they want to pursue, and that they want management to implement, I then ask the question, "How many of you think we *will* actually do this, *will* run the company this way, and actually *will* implement these strategies?"

In a remarkably high proportion of cases, even the most senior vice-presidents or partners indicate that they do *not* think the new strategies and policies will be implemented. If *they* are skeptical about the company's own ability to implement its own declared strategy, can you imagine how cynical the employees are?

Creating a New Religion

It is incredibly hard even for sincere leaders to get their colleagues and subordinates to believe that they have changed, and that they will manage to new standards.

People almost never believe this. They just don't accept that there has been "a conversion on the road to Damascus." They never believe there truly is a new religion in place. They always worry that their leaders will, when they are tested with a trade-off, go back to managing the way they did during the prior five, 10 or 15 years. Until they have hard evidence to the contrary, they don't think that *management* has the ability to say "no" to temptation.

When you think about it, this cynicism is to be expected. Why should people think the leopard has changed its spots? If those closest to the leaders (the rest of top management) often have a hard time believing that the leaders have truly changed their thinking, what hope is there for convincing the rest of the organization?

Managers must work constantly to act as a countervailing force to powerful financial reporting systems, which almost inevitably fail to make a distinction between *strategy* and *volume*: revenues and profits that are obtained by acting in ways consistent with the strategy versus those that were obtained in ways that involve compromises of the standards implicit in the strategy.

The required changes fall into one of three categories: measures, behavior and personnel.

First, it is necessary to create new scorecards - built into the firm's regular reporting systems - that can distinguish between on-strategy work and off-strategy work.

In one firm, as a piece of special analysis, it was discovered that 65 percent of their business came from only 100 of their total of 4,000 clients, and that most of the remainder were unprofitable.

The realization soon dawned that such analyses are not very effective if they are only done periodically and in retrospect. Given the will, it was not too difficult to build this analysis into the firm's regular monitoring and managing approaches, making the firm's regular reviews of its results more "strategic."

Firms need to address the question, "How do we put in place early indicators that our strategy is being implemented and succeeding?" For example, any firm could and should examine and regularly report such questions as where it gets its business from, what percent of clients generate what percent of income, what percent of business in each year is from brand new clients and what percent is from clients (or types of work) that had been predesignated as targets.

As I discussed in "Measuring Your Marketing Success," a chapter in my book ***True Professionalism,*** there are also ways to monitor which revenue streams are "building your asset" (i.e., helping you strategically) and which ones are "milking your asset" (good for the bottom line but not moving you forward).

Next, a CEO or managing partner will need to ask what it is that he or she can do personally that will give dramatic evidence that top management is serious about adhering to the strategy in spite of short-term temptations.

Shawn Callahan of Anecdote, an Australian management consulting firm, points out that people will continue to be skeptical while the stories they hear about top management stay the same. It is necessary for top management to **do** something (not just **say** something) that is both sufficiently dramatic and sufficiently different from the way that management has behaved in the past, so that people in the organization start to discuss the story and pass it on to others.

The challenge is figure out what the CEO (or others in top management) could do that would be dramatic and a break with the past, but that would also be seen as credible and not just window-dressing. The answer will depend on the specific company situation, but I often suggest that CEOs and managing partners ask their people the question directly: "What could I do that would convince you that I was serious about sticking to our strategy and enforcing the standards that flow from it?"

It is perhaps sad to report this, but since people are always skeptical that specific individuals have changed, the most dramatic evidence that things have changed is when new people are put in key positions of influence. As one of my clients said, "The only way to *change* people is to change *people*!"

The Wisdom of the Ancients

In *The Wisdom of Confucius* (translated by Lin Yutan London, 1958) there appears the following exchange:

Zigong asked Confucius "What would you say if all the people of a village like a person?" "That is not enough," replied Confucius.

"What would you say if all the people of the village dislike a person?" "That is not enough," replied Confucius.

"It is better when the good people of the village like him, and the bad people dislike him."

This ancient wisdom (Confucius died in 479 BC) summarizes what we have said in this article. You cannot and should not try to please everyone. Make sure that the right people like you, and it will be expected that others will not. That's how the world works.

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