



RAFFLES LEGACY LEARNING

BUSINESS STRATEGY MASTERCLASS

BOOK TWO - DEVELOPING YOUR OWN STRATEGY

PHASES OF STRATEGY I



MASTERCLASS COURSEBOOK



POINT OF DEPARTURE



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Before setting out on any strategic direction for the future, it is essential to learn as much as possible from the past, to review the pertinent facts and experiences, and extract the appropriate lessons from information and memory.

That learning must provide a comprehensive understanding of the history and current situation of a particular business, including the immediate competitive environment and those broader trends and influences which have and will continue to shape that business.

It also helps to understand applicable lessons from adjacent, similar, or relevant sources of learning and knowledge. A full diagnosis looks backward and forward, outward and inward, and takes into account both dynamic and static views. It looks at customer segmentation as an important insight into growth and profitability.

Moreover, a thorough approach will look at those subtle trends and influences which will affect the business on an indirect basis today but may have an important impact on the future performance of a business.

This thorough approach will ensure that you have learned the lessons of the past as comprehensively as possible in order to determine as far as possible the shape of the future. Only through this kind of comprehensive and thoughtful diagnostic approach can your team arrive at an adequate understanding and evaluation of the full range of options available.





The first step in a strategy diagnostic is to prepare an analytical summary of the current state of the business in absolute terms and relative to competitors. This point of departure summary will include company history, business definition, an overview of customers, markets, and sources of profitability.

It will address historical and current financial results, strategic balance sheet and organizational issues.

The first step in a strategy diagnostic is a description of the point of departure, setting out the facts and an analytical summary of the current state of the business – in absolute terms and relative to competitors.

This will include:

- **Company history and business definition**
- **An overview of customers, markets, and sources of profitability**
- **Historical and current results**
 - **Financial**
 - **Strategic balance sheet**
 - **Organizational**

The fundamental measures of business performance are essential to document for two reasons.

First, they describe factually the past and present position of the business and provide a foundation for strategic design.

Second, they will form an important yardstick for a new strategy – the charts here will also be a key part of the target results for the implementation phase of your strategy going forward.





The critical information can be set out in the theoretical examples that follow:

RAFFLES WATCHES BACKGROUND AND HISTORY

- Raffles Watches ("Raffles"), founded in 1736, is one of the world's leading luxury watch houses, specializing in high end men's gold case, leather strap chronometers and pocket watches, epitomizing Swiss values of precision, quality and exclusivity.
- Following a series of poorly received product redesign and relaunches in the past decade, the watch business lost a global leadership position and continues to suffer long term erosion in market share, brand presence, and relative margins. Ladies' watches are in a particularly weak position and suffer from performance problems.
- Competitors have overtaken Raffles and continue to grow in the core luxury watch segments and in high growth sectors such as sports watches, where Raffles is not present. Only pocket watches, a small and declining market, have maintained a leadership position.
- Seven years ago, the company diversified into the luxury leather goods market with the acquisition of Perso for \$200 million. This acquisition also brought Raffles into the Italian property market through a Perso subsidiary in Milan.
- The acquisition of Perso has not provided the desired uplift in profits nor the expected cross-sell of leather goods and watches. The property division of Perso has provided even more problems than the core leather goods division.
- A new CEO has been hired from the outside to develop a new strategy for business



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RAFFLES WATCHES CURRENT BUSINESS DEFINITION

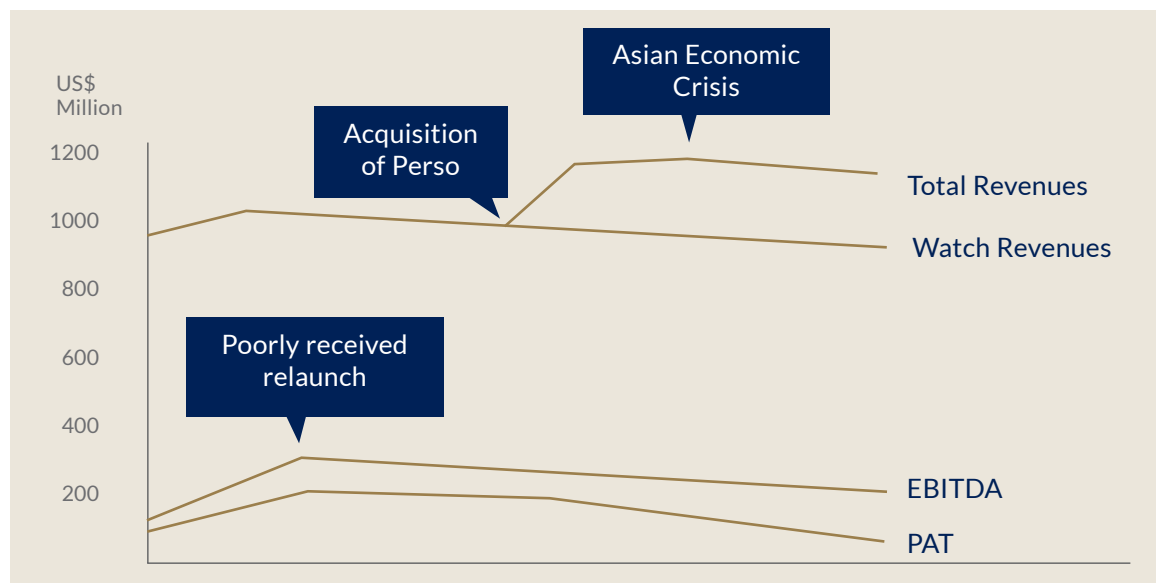
- Raffles is in the business of designing, manufacturing, distributing, servicing, and marketing one of the world's leading luxury watch brands.
- In addition, Raffles owns and operates an Italian leather goods business and a property business unrelated to the luxury goods unit.



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Raffles Watches Financial Results



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Raffles Watches Customer Matrix

CUSTOMER SEGMENT (END USER)	PRODUCT SALES/ SERVICE \$ MM	TOTAL SALES %	SALES TREND	PRE TAX PROFIT \$ MM	TOTAL PROFIT %	PROFIT TREND	COMMENTS
Core Collectors	400	40	→	62	41	↑	Mostly European - need to identify and work with via direct outlets
European men 40-60+	190	19	↓	30	20	→	Losing to Zurich-Swiss (leading competitor)
European men 20-40	50	5	↓	9	6	→	Losing to Sportius (leading competitor)
European women	50	5	→	8	5	↓	Weak range and low brand presence
Asian	100	10	↑	10	7	↓	Price pressure
American	200	20	→	30	20	→	Flat sales - lack of brand excitement
Third Party service	10	1	↑	11	<1	↑	High margin growth opportunity ?
Total	1000	100	↓	150	100	↓	Overall performance under pressure



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Raffles Watches Customer Profitability 1

3 MOST PROFITABLE			COMMENTS / IMPLICATION
Customer	Sales (\$ million)	EBIT (\$ million)	
Collector Club	\$52mn	\$19mn	High margin / get to know better
Distributor 1	\$11mn	\$4mn	Pocket watch specialist / find more
Distributor 2	\$30mn	\$9mn	Great sales practices / document and roll out



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Raffles Watches Customer Profitability 2

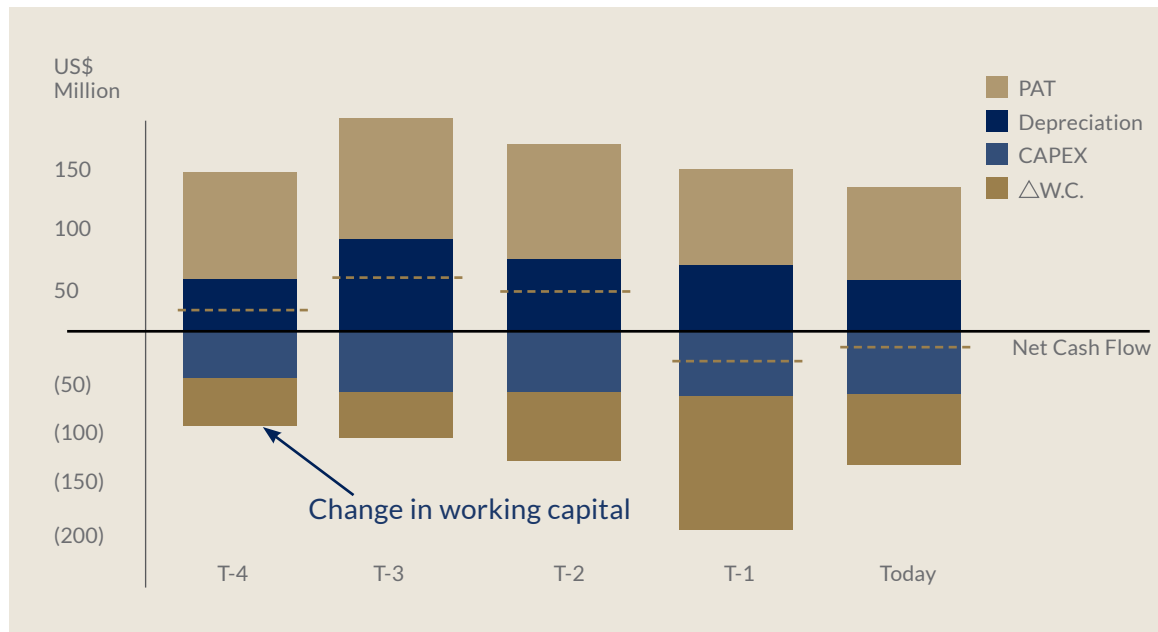
3 LEAST PROFITABLE			COMMENTS / IMPLICATION
Customer	Sales (\$ million)	EBIT (\$ million)	
Distributor 3	\$6mn	(\$1mn)	Extended trade terms / renegotiate
Asian Women	\$22mn	-	Discount purchases only / de-emphasize
Wholesaler 1	\$18mn	(\$2mn)	No control / new contract needed



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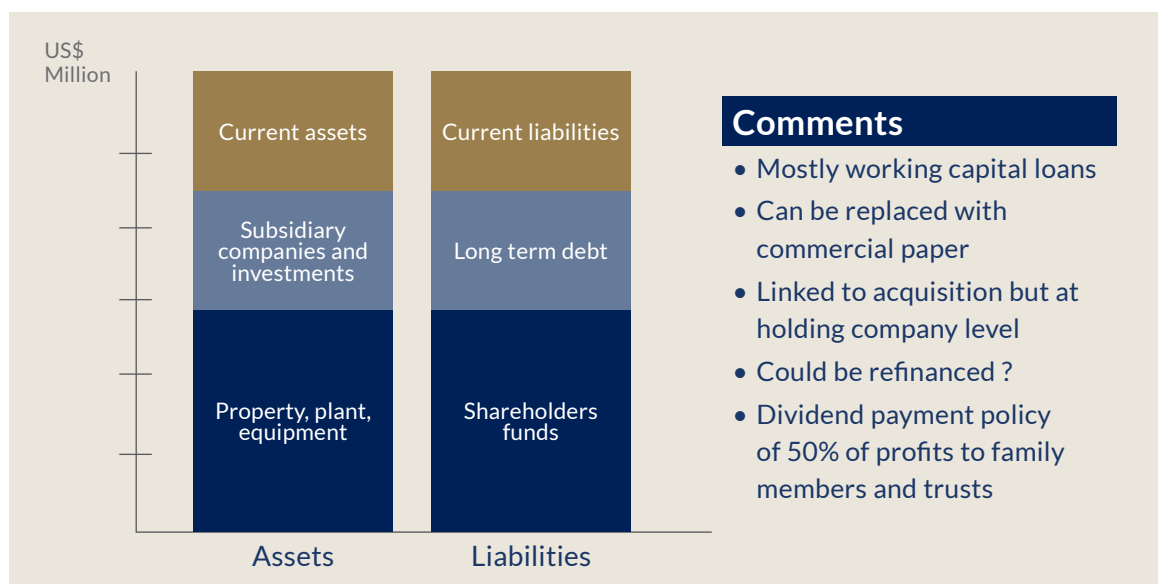


Raffles Watches Cashflow (operating)



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Raffles Watches Balance Sheet



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Raffles Watches Strategic Balance Sheet

ASSETS	LIABILITIES
"Hard" Strategic Assets	"Hard" Strategic Liabilities
<ul style="list-style-type: none"> • Well known brand • 36 owned outlets • 600 other points of sale • High market share 	<ul style="list-style-type: none"> • Limited range • Outdated IT systems • Competitor momentum • \$200 million debt (Perso) • Fading brand equity
"Soft" Strategic Assets	"Soft" Strategic Liabilities
<ul style="list-style-type: none"> • Quality reputation • Loyal (repeat purchase) customers • Dedicated workforce • "Old World" culture 	<ul style="list-style-type: none"> • Perso distraction • Internally focused organization • Family transitions coming up • "Old World" culture



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